WB

S. HRG. 103–640

FRAUD IN FEDERAL NUTRITION PROGRAMS

Y 4. AG 8/3: S. HRG. 103-640

Fraud in Federal Nutrition Program...

HEARING

BEFORE THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

ONE HUNDRED THIRD CONGRESS

SECOND SESSION

ON

FRAUD IN FEDERAL NUTRITION PROGRAMS

February 2, 1994

Printed for the use of the
Committee on Agriculture, Nutrition, and Forestry

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FRAUD IN FEDERAL NUTRITION PROGRAMS

WEDNESDAY, FEBRUARY 2, 1994

UNITED STATES SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The committee met, pursuant to notice, at 9:30 a.m., in room SR–385, Russell Senate Office Building, Hon. Patrick J. Leahy, Chairman of the committee, presiding.

Members present or submitting a statement: Senators Leahy, Harkin, Conrad, Feingold, Lugar, Cochran, McConnell, Grassley, Helms, Kerrey, Daschle, and Dole.

STATEMENT OF HON. PATRICK G. LEAHY, A U.S. SENATOR FROM VERMONT

The CHAIRMAN. Good morning. Three years ago, drug manufacturers were charged with defrauding the WIC Program. Child nutrition programs have been bled by school lunch price-fixing for years.

I mention these items because they are instances of conspiracies where corporate profits were put before the well-being of children. Even today we see nutrition programs besieged on many, many fronts.

Food stamps and WIC vouchers are stolen and laundered. People are mugged for food coupons as they leave welfare offices. Store owners cooperate with traffickers, and split the profits of food stamps that are bought for pennies, but then sold for big bucks on an illegal market. Earthquake victims suffer delays, as workers sift out fraudulent claims.

Our Federal nutrition programs are becoming the targets of street thugs and criminals who take food from the needy and convert taxpayer dollars to their personal use. Fraud in the Food Stamp or the WIC Program is aimed at the most vulnerable Americans. This is an outrage to every taxpayer in this country. It denies children and the needy of food, but it also takes money from the taxpaying public.

Trafficking of food stamp and WIC vouchers is a national problem. The cost to taxpayers of fraud and State agency errors in administering these programs is more than $1 billion annually. Each dollar stolen from WIC is one less dollar that could help the 3 million eligible women, infants, and children who are eligible to be on WIC, but are not on WIC because the money is not there.

So we ought to stop and think about it. It is not just criminal conduct. It is taking food from needy people. As one who has made the nutrition programs his number one priority, as

Chairman of this committee, I will not stand for those who defraud the taxpayers and make themselves rich in these programs. I will also not stand for the fact that the hungry people, the programs are designed for, are not getting the help they should have.

We are going to hear about stores in Chicago that are involved in the WIC voucher trafficking. We are very fortunate to have the Attorney General of Illinois here to talk with us about that.

We are going to hear about government attempts in counterfeiting, and we are going to hear about felony indictments in the earthquake emergency assistance program in California. We will also see an undercover tape of some postal employees stealing food stamps out of the mails.

Having said all that, I would like to add that the overwhelming majority of our mail carriers are honest members of their communities, and are outraged by these actions of a few, as we are.

There are too many Americans today that are just a step away from government assistance. You are suddenly unemployed; you have a serious illness; or you are faced with a natural disaster, as we saw in California. That is all it takes.

Americans cannot anticipate the emergency situations where their families will suddenly be in need, just as we could not even anticipate the extraordinarily cold weather in the Northeast where we saw needs there.

Thousands of Californians could not anticipate their plight today—just as Floridians found themselves homeless after a hurricane, or homeowners in the Midwest saw their homes washed away by floods.

Federally funded nutrition funds are a safety net. They are a firstline of defense against hunger. I think Congress should show no mercy whatsoever for those who would profit from ripping off these essential programs. Criminals are exploiting programs that help more than 40 million Americans a year—men, women, children, the elderly, and the disabled. They are the real victims of this fraud.

The punishment for defrauding millions of Americans should be severe enough to fit that crime. It should not be just simply some fines that people pay as a cost of doing business; it has to be far more severe than that.

Now it is our responsibility to oversee the programs that are funded by taxpayers. Last year, I introduced legislation to increase penalties for those found guilty of price-fixing and bid-rigging. I proposed a bill to eliminate food stamp coupons in 3 years and replace them with an Electronic Benefits Transfer System (EBT), something similar to what is being experimented with in Maryland. This is a solution to a problem and a step we need to take immediately.

The bill I introduced yesterday, the "WIC Fraud Prosecution Act", takes our antifraud actions one step further. It disqualifies stores from participating in WIC if their management is involved in benefit trafficking or similar crimes. It imposes tough criminal penalties on those persons convicted of WIC trafficking. As a former prosecutor, and I think it does one thing that really will put the teeth in it—it provides for the confiscation of personal property

to the Federal Government and also requires State plans to combat WIC trafficking.

We should deal with fraud in our food assistance programs swiftly and decisively. Parasites who profit off human misery should be prosecuted, and they should be punished.

It has been my experience that if people think that they will not be, they will keep on doing it. If they know the penalties are real, as the Attorney General in Illinois showed, they will do something about it; and I also might say—this is not something where one party or the other has the role. It has to be a bipartisan effort, as this committee has demonstrated over and over again in the past, and one that will work with the Department, a department which has been very, very cooperative already with us to stop it.

I would like to yield to the ranking Member, Senator Lugar, and then we will start with Attorney General Burris of Illinois.

STATEMENT OF HON. RICHARD G. LUGAR, A U.S. SENATOR FROM INDIANA

Senator LUGAR. Thank you very much, Mr. Chairman. I join you in welcoming the distinguished witnesses who have come and likewise all Americans who are vitally interested in these programs.

I would just start by underlying your basic theme, and that is that confidence in these programs, really the fundamental foundation of public policy, of the deliberations that we have as a legislative body, we really have to take for granted that the programs are being well run and that integrity is manifest in participation by all.

This committee and Members of the Senate are compassionate, but the public expects us also to be hardheaded in our analyses and in expressions of common sense, and that is the basic foundation for this hearing today on fraud in the Federal nutrition programs.

The single largest Federal nutrition program is the Food Stamp Program, now with funding of $24 billion, which is a very large percentage of the entire USDA budget, serving 27 million Americans. A number of witnesses will address specifically this program.

I am interested in the utilization of the electronic benefits transfer system to disburse food stamps electronically, rather than through coupons. I believe this has the potential to eliminate much of the trafficking or exchange of coupons for cash that is currently occurring.

However, the continued use of the electronic benefits transfer and further expansion of the paperless delivery system has brought questions, and, of course, it is in jeopardy pending a decision by the Federal Reserve Board as to whether consumer protections under Regulation E will be imposed. Should Regulation E be imposed, States could be financially liable for stolen or even sold benefits checks, and the potential financial impact on States might cause them to curtail the use of EBT for food stamps. We look forward to hearing from USDA about what their response will be, should Regulation E be imposed.

I would like to also include for the record a letter sent to the Federal Reserve Board Chairman, Alan Greenspan, signed by several Senators on this committee, expressing support for the electronic benefits transfer.

Senator LUGAR. The hearing also provides us with an opportunity to hear about the emergency Food Stamp Program operating in the Los Angeles area in the aftermath of the tragedies in that area. Most of us have seen the disturbing news reports in the past few days about individuals abusing the program. We really want to have a comprehensive view of the totality of that situation.

I commend specifically my colleague, Senator Mitch McConnell, who is here at this hearing today, for his work to curtail fraud and abuse in the Food Stamp Program. Several provisions of his legislation, which I have co-sponsored, have been enacted and have been very constructive.

Finally, we will hear today about some specific problems in the WIC Program that the Chairman has mentioned. This program is one which needs to be reauthorized by this Agriculture Committee of the Senate before the end of the fiscal year. The WIC Program, which has received a steady increase in funding with strong bipartisan support, continues to reach more low-income women and children in need of nutritious of food and nutrition education. Many studies have documented the cost-effectiveness of that program.

While today's hearing focuses primarily on the Food Stamp Program, I understand that the Chairman will have subsequent hearings in this committee to address the issue of fraud in other Federal nutrition programs, and we look forward to those hearings.

I thank you, Mr. Chairman, for calling this hearing.

The CHAIRMAN. Thank you, Senator Lugar.

[The prepared statement of Senator Lugar follows:]

STATEMENT OF SENATOR LUGAR

Mr. Chairman, thank you for calling this hearing today to discuss the problem of fraud in Federal nutrition programs.

Confidence in these Federal nutrition programs is a public policy necessity. The integrity of the programs is the basic foundation of our legislative efforts. The people of our country are compassionate, but they demand of each of us hard-headed analysis and common sense.

The single largest Federal nutrition program is the Food Stamp Program, with funding of over $24 billion in this fiscal year serving 27 million low-income Americans. A number of the witnesses today will talk specifically about this program.

The utilization of the Electronic Benefit Transfer (or EBT) System to disburse food stamp benefits electronically, rather than through paper coupons, has the potential to eliminate much of the trafficking, or exchange of coupons for cash that is currently occurring, and straining the integrity of this program. Many States are gearing up to use EBT for food stamps or are now using EBT. However, the continued use of EBT and further expansion of this paperless delivery system may be in jeopardy pending a decision by the Federal Reserve Board about whether consumer protections under Regulation E will be imposed. Should Regulation E be imposed, States could be financially liable for replacement of food stamp benefits when debit cards are lost, stolen, or even sold. The potential financial impact on States may cause them to curtail the use of EBT for food stamps. I look forward to hearing from USDA about what their response will be should Regulation E be imposed. I would also like to include for the record, a letter sent to Federal Reserve Board Chairman Greenspan, signed by several Senators on this committee expressing support for EBT.

This hearing also provides us with an opportunity to hear about the emergency Food Stamp Program, operating in Los Angeles, in the aftermath of the earthquake. Most of us have seen disturbing news reports in the past few days about individuals abusing this program, designed to help those faced with unfortunate tragedies.

I would also like to commend my colleague, Senator McConnell, for his work to curtail fraud and abuse in the Food Stamp Program. Several provisions of his legislation, which I have co-sponsored, have been enacted.

Finally, we will also hear today about some specific problems in the WIC Program. This program is one which needs to be reauthorized by this committee before the end of this fiscal year. The WIC Program, which has received a steady increase in funding, continues to reach more low-income women and children, in need of nutritious food and nutrition education. Many studies have documented the cost-effectiveness of this program.

While today's hearing focuses primarily on the Food Stamp Program, I understand that a subsequent hearing of this committee will address the issue of fraud in other Federal nutrition programs.

I look forward to hearing testimony from the witnesses today.

Senator LUGAR. I ask, Mr. Chairman, in addition, to include in the record a statement by Senator Thad Cochran of Mississippi.

The CHAIRMAN. Of course, and the record will have a place here for statements by any Member who wants to include them.

[The testimony resumes on page 14.]

[The prepared statements of Senator Cochran and Senator Helms follow:]

STATEMENT OF SENATOR COCHRAN

Mr. Chairman, I would like to commend you for holding this hearing to address the serious concerns of fraud in our Federal nutrition programs. This is a very important issue to me with over 500,000 Mississippians receiving food stamps in over 196,000 households on average each month.

The integrity of the Food Stamp Program must be maintained in order to accomplish it's objective of supplementing the food buying power of eligible low-income households. Nearly 60 percent of the budget of USDA is targeted to nutrition and food assistance programs. Congress must take every step possible to reduce fraud and misuse of these programs.

I look forward to the testimony of the witnesses and working with the committee on this issue.

[The prepared statement of Senator Helms follows:]

STATEMENT OF SENATOR JESSE HELMS

Mr. Chairman, this past weekend, the *Los Angeles Times* reported after-shocks of another kind in Southern California in an article entitled "Rampant Fraud Feared in Food Stamp Rush." Specifically, welfare recipients falsified and inflated claims for emergency assistance, once again taking advantage of an already much abused and mismanaged Food Stamp Program.

Sad to say, such abuses of a Federal welfare program are nothing new. In fact, the February, 1994, edition of *Reader's Digest* contains an article entitled "The Food Stamp Racket" which reports that of the $24 billion taxpayers fork over for food stamps, nearly $2 billion is lost to fraud, waste and abuse.

As the Chairman knows, I have strongly supported efforts to reform such reckless abuse in the past. While Chairman of this committee in 1982, I offered "block-grant" legislation that would provide States with the option of establishing their own nutritional assistance programs in the place of the Food Stamp Program. I think we need to look at this again, as well as Senator McConnell's legislation entitled the Food Stamp Anti-Fraud Act of 1993 of which I am proud to be a co-sponsor.

Rather than admit that fraud and abuse is rampant in programs, Congress has simply thrown more money at the problem in the hope that the problem would go away. It won't. In fact, President Clinton has proposed an increase of $3 billion over the next 5 years which, more than likely, Congress will be obliged to hand over.

In the days ahead, I hope my colleagues will be cautious when they are told that the needy are suffering "because not enough money is being spent on Federal welfare programs." Since its inception in 1965, the Federal Government has poured $245 billion into the Food Stamp Program. The problem with Federal welfare programs is that Congress has been reluctant to go in and fix them. That should be a priority of this committee this year.

Mr. Chairman, I ask unanimous consent that the February 1994, *Reader's Digest* article entitled "The Food-Stamp Racket" and a news article from the *Los Angeles Times* of January 28, 1994, be printed in the record at the conclusion of my remarks.

Crooks have turned this well-intentioned program into an illicit cash machine—and taxpayers are stuck with the bill

The Food-Stamp Racket

By Daniel R. Levine

Spyros Stanley was one of the wealthiest people in Charleston, W.Va. He owned a bar and practically every parking lot in the city. But, according to investigators, he had also purchased $23,000 worth of food stamps—for a fraction of their value—from welfare recipients and crack-cocaine dealers. Stanley was buying the stamps to purchase food for himself and his bar.

In Brooklyn, N.Y., J & D Meats, Inc., looked like a typical big-city wholesaler, bustling with delivery trucks, vans and forklifts. Its finances, however, were anything but typical. J & D's owners were illegally trading meat for food stamps. The wholesaler was converting the stamps to cash by depositing them into the bank account of a retail meat market it had once owned, but which was then out of business. In nine years, J & D Meats redeemed $82-million worth of food stamps at its bank.

In Hampton, Va., food stamps became Lazaro Sotolongo's road to riches. Penniless when he arrived from Cuba in 1980, Sotolongo set up a drug ring that sold crack for food stamps at 50 cents on the dollar. He converted the food stamps to cash by selling them to unscrupulous authorized retailers. Over three years he took in more than $1 million.

Says Constant Chevalier, Midwest regional inspector general of the U.S. Department of Agriculture (USDA):

Reader's Digest
February, 1994

"We've seen just about every type of fraud and abuse of the food-stamp program you could think of."

In 1968, 2.2 million Americans received food stamps at a cost of $173 million. Today, 27 million Americans are enrolled in a food-stamp program that costs taxpayers $24 billion a year.

Food stamps are available to anyone meeting certain eligibility requirements, including individuals whose monthly income is 30 percent *above* the poverty line. The eligibility requirements are so generous that a family of four earning $18,660 a year (and an individual earning $9072) can qualify for limited benefits. Maximum benefits for a family of four with no income are $375 a month, while a family of eight can receive up to $676 a month. The value of the stamps is inflated to 103 percent of the cost of the government's basic nutrition plan. This three-percent boost costs $850 million each year.

Food stamps have become a second currency used to pay for drugs, prostitution, weapons, cars—even a house

Even when required by law, getting Congress to cut food-stamp benefits is nearly impossible. Benefits are indexed for food-price inflation once a year. But when food prices dropped 1.3 percent between 1991 and 1992, Congress blocked the law's automatic reduction in food-stamp benefits, throwing a potential s ings of $330 million out the wind

At the same time President Cl ton and Congress talk of reduc the federal deficit, food-stamp spei ing will increase by $3 billion o the next five years. Now is a gc time to take a look at what ye. of skyrocketing spending have alrea produced.

Second Currency. Once a mon a large percentage of food-stan recipients receive "authorization participate" (ATP) cards in the m that show their monthly allotme based on household size and incor They take these to a post office, bar or check-cashing store and exchan them for food stamps, which are use to buy food in authorized retail store

But it's when recipients trade th stamps for cash or drugs that the sy tem breaks down. A typical frau works this way: A drug deale approaches a food-stamp recipient out side an issuance center and trades $5 worth of crack for $100 in food stamps The dealer then sells the stamps to dishonest authorized retailer for $7 in cash. The store then redeems the stamps at a bank for their full value As a result food stamps have become a second currency used to pay for drugs, prostitution, weapons, cars—even a house. Says Cathy E. Krimick, a Virginia deputy commonwealth attorney, "Food stamps are more profitable than money."

In Camden, N.J., a USDA agent making an undercover investigation into food-stamp fraud received a startling offer in January 1991. Jack

Ayoub, owner of a grocery store authorized to accept food stamps, had already received $6700 in coupons from the agent for $3300 in cash. Now Ayoub offered to trade a three-bedroom house for $30,000 in food stamps and another house every two months using the same scheme. After completing the first part of the deal, Ayoub was arrested by federal agents.

An art aficionado in Albuquerque, N.M., used food stamps to fund his collection. He also owned a general store authorized by the USDA to accept food stamps. But instead of milk or eggs, he gave customers cash at 30 to 50 cents on the dollar for their stamps. Then he redeemed them at the bank for their face value. With his profits, he bought $35,000 worth of stolen art.

Food stamps are also easily counterfeited. Dennie Lyons of New Orleans printed more than $127,000 worth of bogus stamps and tried to sell them around the country. When caught, he was sentenced to four years in prison, and his wife, Johnette, got five years' probation for aiding him. But it wasn't long before her phony food stamps were replaced by real ones—soon after her indictment, she was admitted to the food-stamp program.

Retailer Rip-Offs. Only stores authorized by the USDA's Food and Nutrition Service (FNS) can accept and redeem food stamps. But the procedures for receiving authorization are woefully inadequate. A retailer can receive certification merely by filling out an application and stating that staple foods account for over 50 percent of his sales. At the same time, however, there are some 175 FNS people assigned to monitor and investigate the activities of 213,000 authorized retailers, of which 3200 are estimated to be illegally exchanging stamps for cash.

The FNS is so outmatched that even official sanctions don't work. A USDA audit in 1992 found that there were "no effective procedures" to prevent disqualified retailers from continuing to accept and cash in food stamps. "The disqualification process is sorely lacking," says one regional inspector general.

Adds Craig L. Beauchamp, the USDA's assistant inspector general for investigations, "We are seeing more million-dollar-and-up frauds committed by retailers than we have ever seen before."

In Toledo, Ohio, grocer Michael Hebeka was convicted of fraud and permanently banned from the food-stamp program in 1984. Using falsified papers, he tricked officials into believing he had sold his Ashland Market to an employee. Soon the government reauthorized the store to accept food stamps, and Hebeka was back in business. When he was caught a second time in May 1991, he had already redeemed another $7.2 million in stamps.

In Los Angeles, two small grocery stores bought food stamps for half their face value in cash and redeemed them for their full value. Between 1989 and 1992, they cashed in stamps worth more than $20 million. For 16 months, one of the markets averaged

$19,000 a day in food-stamp redemptions—even though it had only $10,000 in inventory.

In East St. Louis, Ill., Kenneth Coates, owner of Coates Market, paid as little as 65 cents on the dollar for food stamps, which he cashed in for full value. Over a year and a half, he redeemed $1.3 million, enabling him to pay for his children's private schooling and have enough left over for $150,000 worth of stocks, at least five rental houses and a Mercedes-Benz. This wasn't the first time Coates Market had defrauded the food-stamp program. Ten years earlier, it had been disqualified for fraud—only to be readmitted after six months.

In Detroit, the department of social services sent $26,000 in food stamps to Mae Duncan. But she didn't exist

Bureaucratic Nightmare. After Medicaid, the food-stamp program is the most expensive in the federal welfare system, and one of the most poorly run. Even when the number of recipients has dropped, operating costs have gone up. In 1990 there were 600,000 fewer people on the rolls compared with 1981. But administrative costs soared from $1.1 billion to $2.5 billion. The bureaucracy has grown so unwieldy that mismanagement and inefficiency permeate the program.

Most welfare programs are jointly funded by state and federal governments. But food stamps are *entirely* funded and regulated by Washing ton, while state and local agencie are responsible for administering an distributing the coupons. Essentiall states run the day-to-day operatio of a program in which they have lit tle incentive to manage costs efficientl

Mistakes are rife. In 1992, $1.7-bi lion worth of food stamps wer overpaid or sent to ineligible peopl The government has fined states tha have high error totals, but the penal ties are rarely taken seriously. Dur ing the past 11 years, $869 millio in fines have been levied, and onl $5 million collected.

With over $20 billion in federa food stamps circulating every yea and little reason for the states t manage them effectively, it's no sur prise that the program is easy pick ings for crooks—even those "inside the system.

In Detroit, the department of socia services sent $26,000 in food stamp to Mae Duncan. But she didn't exist The name was one of 26 invented by Patricia Allen, a 39-year-old socia worker. Over a nine-year period she collected more than $221,000 worth of food stamps. In Bator Rouge, La., two sisters who wer social-service caseworkers issuec $50,000 in food stamps to nonexist ent recipients. And in St. Paul, Minn nobody noticed when a state clerl pocketed $180,000 worth of returnec food stamps in nine months.

Of the $24 billion taxpayers forl over for food stamps, nearly $2 bil lion is lost to fraud, waste and abuse

Says welfare and social-policy expert Charles Murray of the American Enterprise Institute, a Washington, D.C., think tank, "This is a program that for three decades has grown year after year, without any evidence that it *should* grow."

Clearly, radical reform is needed. Here's what can be done:

1. Tighten eligibility. Food stamps should be focused on helping the neediest Americans—those living at or below the poverty line. Lowering the income eligibility ceiling to that level (except for families with elderly and disabled members) would guarantee that taxpayer dollars are going to those who truly need assistance.

2. Cut excesses. Reducing benefits so that they reflect 100 percent, rather than 103 percent, of the government's basic food plan would save $850 million annually. And states with excessive error rates in administering food stamps should be forced to reimburse the federal government for the lost money. If incentives are put into place, taxpayers could be saved hundreds of millions of dollars each year, and recipients would be served more efficiently.

3. Crack down on criminals. Last August, Congress passed legislation introduced by Sen. Mitch McConnell (R., Ky.) toughening penalties against recipients and retailers convicted of food-stamp trafficking. This is a good start, but much more can be done. Recipients should be permanently barred from the program the first time they are caught trading food stamps for drugs, just as they are when they trade for weapons, ammunition or explosives. Now they are given two chances.

As for retailers, information they provide the FNS, such as sales-volume and coupon-redemption data, should be shared with federal law-enforcement officials. Currently, only other welfare agencies are allowed to see these numbers. Also, tougher standards should be imposed before retailers can be certified to redeem food stamps and after a store has been disqualified. Regular store visits and interviews with the owners should be the rule, not the exception. Some of the savings from the program should be used to hire much-needed additional FNS investigators.

Ultimately, however, it is up to Congress to control the rapid growth of food stamps. But over the program's 30-year history, Congress has rarely taken the bold steps necessary to rein in costs. Eliminating illicit trafficking and ensuring that food stamps reach only the neediest Americans in a cost-efficient manner should be a top national priority.

Reprints of this article are available. See page 202.

Answer Man. A friend of mine, the father of nine children, was elected mayor of his small town. Since he still had to maintain his regular full-time job, I asked, "Why in the world did you run for mayor?"

He answered, "So I could have my own telephone."

—Contributed by Joy Lundberg

Rampant Fraud Feared in Food Stamp Rush

■ **Aid:** Minimal screening for quake emergency vouchers leaves program open to double-dipping and padded claims.

By JAMES RAINEY
and MILES CORWIN
TIMES STAFF WRITERS

The suspension of standard screening procedures in an earthquake food stamp program has apparently unleashed a flood of false and inflated claims for the emergency benefits, officials and applicants said Thursday.

More than 45,200 applicants had deluged county welfare offices by 1 p.m Thursday for emergency food vouchers, which are supposed to help feed poor people who ran out of food or cash because of the Jan. 17 earthquake

At least 11 people already had been stopped from filing multiple claims by Thursday, officials said But with only a driver's license and a simple declaration required to claim benefits—of $446 for a family of five, for example—welfare workers said they have already confirmed a few cases of fraud

Ed Tanaka, director of the county Department of Public Social Services, said he is considering increasing documentation requirements to assure that applicants meet low-income standards and come from earthquake-damaged homes To require more information, the county must receive a waiver from the U.S. Department of Agriculture, which oversees the food stamp program

Outside 29 county welfare offices Thursday, the lines for emergency food vouchers continued to grow In Inglewood, for example, 6,000 people queued up, and tales of abuse were rampant among tired applicants at several offices.

Some opportunists reportedly jumped between several welfare offices, claiming benefits early and often. Others simply padded their claims with fictitious family members (value $85 a head) to increase their take, according to other applicants, who said they disdain the cheaters

"These lines are long and I don t like being held back because of other people's greed," said John Rogers, 36, after waiting four hours in his wheelchair outside the Panorama City welfare office

Another disgusted man outside the Echo Park office said he heard a fellow applicant discuss using his

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FOOD: Fraud Called Widespread as Throngs Seek Vouchers

Continued from A1

computer programmer from Hollywood "If they were giving out free turkeys today the line would be just as long

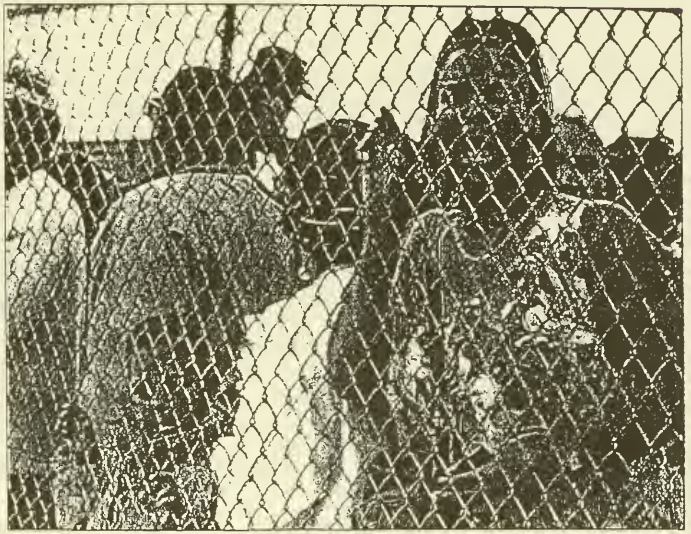
County officials said streamlined verification requirements are designed to speed assistance to those who need it but they have also opened the door to an untold number of opportunists

"The county-administered program requires that applicants meet low-income standards and file a declaration of an earthquake-related loss of income or food—for instance, when a workplace closed down, or a refrigerator lost power and food spoiled The income standard states, for example, that a family of four can receive $375 if its monthly take-home pay and savings, minus quake losses, comes to less than $1,534

The emergency program, which began Monday and runs through Feb 7, is the first in Los Angeles that has not required applicants to produce substantial supporting documents Under standard procedure and even in an emergency n after the 1992 riots applicants have had to produce pay stubs and other information

Officials in other major earthquake aid programs, notably emergency housing assistance, said they also are struggling with conflicting goals of slashing bureaucratic delays and remaining vigilant to improper applications and con artists

City housing officials, for example, who are helping inspect buildings to verify claims of damage, have found that several hundred applicants filed residences that are still livable In those cases, applicants are being denied emergency housing grants



Angry applicants, who say paperwork has kept them waiting for days, yell for officials' attention

The Federal Emergency Management Agency, meanwhile, issued nearly 9,000 checks totaling $27 6 million for temporary emergency housing But the agency lessened the chance of fraud by inspecting homes for damage and verifying applicants' residency

The food stamp program has been most ripe for abuse because of the minimal documentation required and the absence of field checks for damage The USDA is also pushing to issue as many vouchers as possible on the spot or within 24 hours

The Department of Social Services is logging the names and addresses of all applicants for aid and putting them in a computer as quickly as possible to keep track of those who have already received their allocation of the one-time-only vouchers

The Echo Park welfare office reported Thursday that 11 people had already been caught trying to double-dip Officials said they had not yet totaled how many similar problems had been turned up at 28 other welfare offices

At the Rancho Park office, clerks were trying to move 1,000 applicants as quickly as possible

"I usually have one daughter at home, but since the earthquake I have another daughter and a granddaughter living with me," a woman told a county worker who was processing applications outside the office Responded the harried clerk "Just fill it out and we'll give it to you"

Said Shirley Christensen, director of the office "There is no way to verify the information We just have to take them at their word

The spiraling number of applicants also suggested to officials that some claims are improper Just 5,679 people filed for emergency food stamps on the first full day of the program, while 26,351 applied in the last 24-hour reporting period

Dick Montoya West Coast spokesman for the USDA's Food and Nutrition Service said that the "word on the street is that the food stamp program is a giveaway without restrictions

"The important thing people about this program that it's not free," said Montoya "People should go in and say 'I what I have' and see if they are eligible There has to be a certain amount of honesty The American people are paying for this

The penalty for fraud in the food stamp program is up to 2 prison and a $250 fine

Times staff writers Rich Connell and Miguel Bustillo contributed to this story.

[The prepared statements of Senators Daschle, Dole, and Kerrey follow, respectively.]

STATEMENT OF SENATOR THOMAS A. DASCHLE

Mr. Chairman, I would like to begin by thanking you for calling this hearing. I appreciate the opportunity to share a few thoughts on this very important topic of fraud in Federal nutrition programs.

The Federal Government manages many programs—proven and necessary programs—that provide nutritional benefits to millions of Americans. The reason we are here today is not to determine whether fraud exists in Federal programs. Regrettably, it does. Rather, we are here today to focus on solutions to reduce the fraud and abuse in the programs.

I understand that the Office of Technology Assessment (OTA) recently issued a report entitled "Making Government Work." OTA's report, in part, focused on the potential benefits of the Electronic Benefits Transfer (EBT) system.

It was stated that "EBT is a feasible alternative to paper-based systems for delivering government benefits and services." The report found that the EBT system would reduce fraud and abuse, help to integrate the delivery of several social service benefit payments and simplify the process of issuing and redeeming benefits. In the area of the Food Stamp Program alone, which is the largest provider of food aid in the United States. OTA affirms that eliminating paper food stamp coupons and implementing EBT nationwide would eliminate cash change and reduce trafficking in benefits and "might reduce levels of food stamp benefit diversion by as much as 80 percent." These are findings we cannot afford to ignore.

My home State of South Dakota is in the process of implementing an EBT pilot project later this year. I am very excited about South Dakota's project and will be anxious to hear a report on its effectiveness, as well as results from other States.

In the final analysis, the elimination of fraud will depend on the collective involvement of Federal agencies, States, retailers, and the recipients of program benefits. I look forward to working with my colleagues as we formulate solutions in this area.

Mr. Chairman, thank you again for the opportunity to participate in today's hearing.

STATEMENT OF SENATOR ROBERT DOLE

Mr. Chairman, I appreciate your holding this hearing to examine fraud in Federal nutrition programs, and I want to acknowledge your and the distinguished Ranking Member's work in this area. Those who are familiar with these important programs know that most beneficiaries and providers do not abuse them. As the new stories coming out of Los Angeles unfortunately remind us, there are people who will not hesitate to take advantage of these programs. We owe it to the taxpayers and the millions who depend on nutrition assistance to do our best to ensure that every nutrition dollar goes for its intended purpose.

The Department of Agriculture does have several food stamp anti-fraud initiatives underway. The most important of which, I would note, originated under the Reagan and Bush administrations. I also want to assure the public that we have tough penalties in place for food stamp fraud and trafficking, thanks in part to proposals put forward by the Bush administration and our colleague Senator McConnell and supported by the leadership of this committee. As a co-sponsor of Senator McConnell's bill, I hope we will take action on the provisions of his anti-fraud legislation that remain to be passed.

Besides tightening penalties, this committee has also looked to technology to combat nutrition program fraud. I first became interested in the potential of electronic benefit transfer system to reduce Food Stamp Program fraud in the early 1980's, and I am encouraged by reports from the field on EBT's success in this area. However, EBT does not make the Food Stamp Program fraud-proof, and depending on the outcome of the so-called Regulation E issue, the program could become vulnerable to costs and abuses not present under the paper issuance system.

I know USDA has joined other Federal agencies in sending a strong message to the Federal Reserve Board that certain consumer protection provisions under Regulation E of the Electronic Funds Transfer Act are not appropriate for government assistance programs. However, if the Federal Reserve Board does go forward with its proposal, the Department and this committee should bear in mind that EBT's potential to curb fraud was one of its primary selling points to Congress. Some Members who have supported EBT may have second thoughts if taxpayers are stuck

with the liability for replacing food stamp benefits when fraud or negligence is involved—something they don't pay for under the current system.

Although much of the concern about fraud in nutrition programs has focused on food stamps because of the dollars involved, we must not overlook problems with other programs. Particularly disturbing is the evidence of fraud in the WIC Program, whose recipients are not only low-income, but by definition at nutritional or medical risk. I am concerned, though, by the testimony of one of our witnesses which characterizes fraud in the WIC Program as "pervasive" and "seemingly rampant". I do not believe that this is the case in my own State or much of the rest of the country, and I think it does the program a great disservice to try to convince the public otherwise. I do hope new WIC vendor management regulations—which we are still waiting on the Department to repropose—will prove an effective and workable tool for increasing the integrity of this program, and thee may be a need for Congress to do more.

Finally, Mr. Chairman, I want to close with a word of praise for the men and women who investigate fraud in nutrition programs, sometimes at great personal risk. Their efforts are crucial to maintaining public support for these vital programs.

STATEMENT OF SENATOR J. ROBERT KERREY

Thank you, Chairman Leahy, for holding today's hearing on the critical issue of fraud in Federal nutrition programs and for giving me the opportunity to comment.

Fraud detection and prevention are important not only to the efficient operation of Federal programs, but also to protect their integrity. Taxpayers increasingly and rightly demanding measurable outcomes from their investment in Federal programs. It is essential that we be able to prove success and cost-effectiveness to those people who pay their hard-earned money into our system.

Nebraska's fraud rate is not unusually high. In fact, it is typical among States of moderate population. In 1993, for example, 140 people were disqualified from the Food Stamp Program. This is not a large number considering that Nebraska serve 112,292 individuals per month on average through their food stamp program. Nevertheless, action is needed to reduce the incidence of fraud as much as possible.

Although my State fraud statistics are not outside the mainstream, I regularly receive letters from Nebraskans expressing concern about fraud and wasted money in the Food Stamp Program and other Federal benefit programs. The impression of uncontrolled fraud can be just as damaging to program integrity as actual incidents of fraud. I have always contended that the amount of abuse occurring in these programs is greatly outweighed by the number of people helped by them. But I also believe that we must heed the call for government reform and improve all Federal programs.

One of the recent proposals to aid in fraud reduction is the Electronic benefits Transfer (EBT) technology. Chairman Leahy, in fact, has recognized the great potential EBT technology holds for improving Federal nutritional programs in his bill, S. 1646, "The Food Stamp Fraud Reduction Act of 1993."

Nebraska's State government recently evaluated a number of proposals to improve the welfare system in terms of both delivery and results. Among those items discussed was EBT. Although Nebraska is interested in pursuing EBT technology in order to streamline their benefits system, they have identified several issues that may pose barriers to its implementation. Two memos outlining Nebraska's concerns regarding EBT are attached to this statement.

As this hearing notes, the importance of fraud to the acceptance and integrity of Federal programs requires that we not settle for high prosecution rates alone to combat fraud. Instead, we must continue to explore additional common-sense solutions to reduce the prevalence of fraud. I ask that in doing so, Mr. Chairman, we recognize the issues faced by individual States in adopting new programs.

The CHAIRMAN. I have asked the Attorney General of Illinois, Roland Burris, who is accompanied by John Perkaus, Assistant AG, to lead off the testimony.

Again, as I said, General, when I was chatting with you earlier, as a former prosecutor, I know that some of these issues—we can talk about the philosophy of food stamps, the philosophy of WIC and everything else, and probably reach broad agreement on it, but I think we also know that if you are going to talk about fraud, you are talking about having law enforcement step in. Philosophy does

not deter, strong law enforcement does; and so, General, the floor is yours.

STATEMENT OF ROLAND W. BURRIS, ATTORNEY GENERAL, STATE OF ILLINOIS, CHICAGO, ILLINOIS; ACCOMPANIED BY JOHN PERKAUS, ASSISTANT ATTORNEY GENERAL

Mr. BURRIS. Thank you very much, Mr. Chairman, and Members of the committee. I am very pleased to be here this morning with you.

First, I would like to thank you, Senator Leahy, for your leadership in bringing this critical issue to the public's attention and to really proceed to make some corrections in it.

As you said, Senator, on my left is my assistant attorney general, Mr. John Perkaus, and he is the expert. He is the prosecutor. I will do a brief script and be prepared to respond to your questions.

The CHAIRMAN. Thank you.

Mr. BURRIS. Thank you for inviting me to speak today on an important issue of combating fraud in the special supplemental food program for women, infants, and children, otherwise known as the WIC nutrition program.

The purpose of the WIC Program is to evaluate the nutritional needs of economically disadvantaged pregnant women, infants, and children and provide them with necessary food, milk, and infant formula to keep their families healthy.

During a time when women and children make up 75 percent of the poverty class, the need for programs like this is undeniable. The important goal of the WIC Program is to meet basic nutritional needs to avoid problems ranging from low birth weight babies to infants born addicted to drugs or alcohol. Properly administered, WIC can significantly reduce both the incidence and impact of these tragedies.

What I have learned as the Illinois Attorney General is what some unscrupulous people are doing, is working on a fraudulent scheme in this program. What I want to share with you today is our aggressive enforcement effort in Illinois to eradicate this fraud.

First, I will explain how these fraudulent schemes were played out.

Second, I will describe how I have used the enforcement powers of the attorney general's office to go after these perpetrators.

Third, and finally, I will review legislation that I am proposing in Illinois, as well as some suggested changes to strengthen the Federal statute. I think, Mr. Chairman, you have taken care of those in the bill you introduced yesterday.

It is difficult for me to estimate the scope of the fraud problem within WIC; however, judging from the scope of the WIC Program itself, the potential losses are staggering. In Illinois alone, WIC expenditures totaled almost $166 million last fiscal year.

In terms of dollars, the vendors in the WIC Program present the greatest potential risk of fraud. In Illinois, over 1,400 vendors serve the 249,000 WIC clients. Clearly the level of exposure to potential fraud is high.

During an 18-month undercover investigation called Operation WEEP—that is the WIC Enforcement Emphasis Program—conducted jointly by my office, the Illinois Department of Public

Health, and the Illinois State Police, we find widespread abuse in the WIC Program.

In December of 1993, we sent a very powerful message, Mr. Chairman, to abusers of the system with the announcement of the indictment of 19 individuals and 12 corporations. We broke an extensive illegal coupon-for-cash operation.

Our investigation uncovered two distinct groups involved in the fraud. First, we caught the WIC vendors who were exchanging food instruments for cash, often for as little as 10 cents on the dollar. The illegally purchased food instruments were then turned in to be reimbursed at the full face value.

The second group found to be implicated in the WIC fraud was health clinic employees. The very individuals whose duty it is to save and protect our children are exploiting them, often on a grand scale.

Our investigation found that the clinic employees can commit fraud in a number of ways. For example, by approving someone who does not qualify for the program and, in return, taking a share of the food coupons. Also by taking unclaimed food coupon instruments from valid recipients. Third, by simply making up files on fictitious clients and claiming the WIC food instruments.

In addition to the direct WIC fraud, we found that once an individual or enterprise crosses the line into criminal conduct, there is no limit as to what crime might be committed. For example, in the course of the undercover investigation, one vendor, perhaps sensing that he was facing an undercover agent, threatened, and I quote, "to blow the head off" of that agent, if the agent were found to be a police officer.

Another vendor, already terminated from participating in the WIC Program, attempted to bribe an undercover agent posing as a crooked WIC inspector with $4,500 in cash, in an attempt to become recertified to participate in WIC. Apparently for this store owner, his WIC certification was not a license to help women, infants, and children. Mr. Chairman, and Members of this committee, it was a license to steal.

Other criminal activity uncovered during our investigation involved cocaine, a TEC 9-millimeter assault weapon, and various other weapons involved in our investigation.

As attorney general, I have significant law enforcement resources at my disposal that I have used to combat fraud in the WIC Program through both civil, and criminal actions.

The civil actions that we have taken, from the inception of the WIC Program, the Illinois Department of Public Health has been concerned with fraud. For many years, the Department has sought to maintain the integrity of the WIC Program through its civil enforcement powers. Fines were imposed; restitution was ordered; vendors were disqualified; and when necessary, my office sought injunctive relief to prevent vendors from continuing to serve.

These administrative efforts to combat fraud were productive only to a point. When vendors go bad and intentionally exploit the system, justice demands more.

It is through my criminal jurisdiction that I am seeking stiff fines and long prison sentences for those individuals. Through the criminal indictment process, over the past several weeks, I have

obtained indictments against a total of 22 individuals and 13 corporations. Since our initial program, we added a couple more as a result of our Operation WEEP.

In addition to criminal charges of State benefits fraud and forgery, these indictments covered a broad range of related criminal activities.

Our investigation of the WIC fraud program is ongoing. Just yesterday, an additional defendants were indicted as a result of Operation WEEP. As John tells me here, more indictments are coming.

Legislative initiatives—While we have accomplished a great deal in obtaining these indictments, we recognize that still more needs to be done. The first thing we need to do is to seek a strong, effective State law creating the offense of unlawful use of WIC food instruments.

This legislation will focus on the specific types of misconduct unique to WIC, including vendor and health clinic employee fraud. Without this law, we were forced to piece together a variety of criminal charges.

Our proposal for legislation clearly establishes illegal conduct including exchanging the WIC Program instruments for cash and fraudulently creating or dispensing of food instruments. The legislation also establishes a sliding scale of penalties determined by the severity of the crime.

As I understand it, Mr. Chairman, you have introduced Senate bill 1816, and I have had a look at that bill, and I say that it does get at the problem, and that is what I was going to recommend to this committee to do, and we are very pleased to see that you have taken that action, and as an attorney general, I support that bill.

The CHAIRMAN. Thank you very much.

Mr. BURRIS. In conclusion, beyond tougher penalties, we must face the reality that without stricter enforcement we cannot hope to eliminate the pervasive fraud in the system. The real tragedy is that these WIC vendor and clinic employees steal from those who can least afford it. The average grant on behalf of infants served by the WIC Program is $86 per month. The average grant for women and older children is $44 per month. For each million dollars in fraud we eliminate, an additional 11,628 infants could be fed under WIC for 1 month.

Studies have shown that proper nutrition during pregnancy and early childhood can significantly reduce health problems down the road. As a society, we cannot afford to ignore the problems of fraud in the WIC Program. In orderly to effectively combat WIC fraud, additional resources will be needed to commit to the battle.

WIC is essentially a community problem administered by local agencies. WIC vendors are retail grocery businesses located in our neighborhoods. This situation puts local authority in a unique position to identify, investigate, and prosecute WIC fraud in all of its forms.

I ask that this committee review Federal WIC funding to maximize our ability to prosecute this fraud, for each dollar of assistance we receive will pay great dividends in fraud prevention.

This is a time of scarce Federal resources. We know how tight our budgets are, and it is up to us to eliminate waste whenever possible.

Let me say emphatically to the Members of this committee, it is my opinion that the WIC Program does work, although it can work better. Tens or perhaps even hundreds of thousands of disadvantaged pregnant women, infants, and children are counting on our efforts to rid WIC of this malignancy and fraud. We must not let them down.

Thank you, Mr. Chairman, and Members of the committee, and I will be more than happy to respond to any questions.

The CHAIRMAN. Thank you, General Burris. I appreciate very much your testimony. I also thank you very much for the endorsement of my legislation. I appreciate that. I will make sure before the day is over that the two Senators from Illinois understand that——

Mr. BURRIS. I will communicate with them as well.

The CHAIRMAN. I must say that both the Senators from Illinois have been extremely supportive of what we have done in the WIC Program, and they have also been extremely supportive of what we have done in trying to tighten up any of the areas where fraud might occur.

Hundreds of thousands of dollars can be illegally diverted from the WIC program in schemes similar to the one your office has exposed.

Not only are we seeing people steal from the taxpayers, but they are leaving some hungry children and some poorly nourished pregnant mothers, with all of the societal and other costs.

When I became Chairman of this committee, I said we are putting the word "nutrition" back in. It is going to be the Agriculture, Nutrition, and Forestry Committee, as it is supposed to be, because that has been my number one priority.

But I also look at the fact that we have so many people, probably as many as 40 percent of the pregnant women, or their newly born children who are eligible to go on the program but cannot because the money is not there.

And in that regard, if people do not realize we are talking about high-stake crime here—I would go back to your testimony, and I wrote this down, where a vendor said to your undercover person: "I am going to blow your head off if you turn out to be a police officer". When you are talking about having TEC 9-millimeter weapons, cocaine, and everything else, we are talking about real crime, are we not?

Mr. BURRIS. This is real crime, Senator, and the irony of it is, you know, that the coupons are in such small amounts. I think you deal with $20 or $25 or no more than $30. So I think it is the smallness that you do not want to try to really begin to put out a lot of resources to deal with it. But when you start adding those up, it adds up into the millions of dollars that these crooked vendors are ripping off.

I mean, one of these clinic employees, was making $7,000 or $8,000 a year in her kickback part of the coupons. So it turns out to be big business.

The CHAIRMAN. Are we just dealing with mom-and-pop operations, a whole lot of them, or are we dealing with organized crime, or can you say, or do you want to say?

Mr. BURRIS. Senator, it is organized, because of how we know that they were laundering these coupons to other vendors. A vendor who might not be certified in the program may end up with these, and they would launder them through another vendor, and if they came up on the West Side, they would split them up and send them to a couple of vendors on the South Side of Chicago, so that they were trying to spread it around and not show up as being so big when the computer printout came out on them.

So, the operation is very organized. I do not know whether or not you can say that what we refer to as organized crime is a part of it.

The CHAIRMAN. Well, the amounts of money you are talking about, it has to be something that is going to be appealing to those who are willing to put organizations together, is it not?

Mr. BURRIS. Absolutely. It goes into the hundreds of thousands of dollars. If a person is willing to pay you $4,500 to bribe an undercover agent to get his license back, he is not interested in trying to help women, infants, and children; he is interested in getting back on this cash gravy train, so he can take this cash that will end up in his pocket and enriching himself.

So these individuals are not paupers that are doing this. These are highly sophisticated, highly trained persons who are seeking to take food and nutrition out of the mouths of children.

So in our scheme of things, you know, our undercover agents posed as the recipients. That is how we—they were the recipients. If you look at my chart, we cut out a chain of command here. I do not know if the other Senators can see this or not, but I might want to point this out to you.

The CHAIRMAN. Sure.

Mr. BURRIS. Under the normal processes, the WIC participant—and this is where we came in as our undercover person; we were the WIC participants, and so we would end up going to the vendor—the normal process is, the participant would get a certificate from the clinic, and then the participant would go and get the food, and the vendor then takes the dollars to the bank, and the bank then gets reimbursed by the State.

Well, what was happening was this, that the employee here who is cutting out the participants, cutting out even the citizens, and they would either take these coupons and go straight to a vendor, and the vendor would then cash them in, and this is where the dollars were being exchanged at 10 cents on the dollar, 15 cents on the dollar.

The CHAIRMAN. Amazing.

Mr. BURRIS. And the participants are nowhere in the picture. That is what we got onto. So we then posed as the participant to complete the chain, and our undercover officers were the participants, and they would get the certificates. That is how we ran across the clinic individuals who were printing them up, printing these coupons up, and then would hook up with the vendors.

So it turns out to be a very elaborate process.

The CHAIRMAN. My last question. I appreciate, as I said, very much your support of my legislation.

Do we not have a situation where the States themselves can be helped if they can put together specific legislation to work on this?

I was struck by what you said of having to cobble different types of laws together to effect this. But if we can put together tough Federal penalties—but it sounds to me as though States would be well advised if they put their own State WIC antifraud law or——

Mr. BURRIS. That is correct. I will be putting that piece of legislation in to our general assembly. We found that we had to patch together our other fraud statutes in order to get our indictments and our prosecutions underway here. But we will be introducing legislation, and I would encourage other States to do this.

Speaking of bipartisan effort, we have a bipartisan effort in the State of Illinois doing this, because we have to work with our Department of Public Health, who administers our program, and our Department of State Police, whose officers risk their lives going undercover and to make this an effective investigation, along with my office and then with my prosecutors working in conjunction with those officers.

So it takes all of us in government to cooperate and protect those citizens, and we are encouraging our sister States to do likewise.

The CHAIRMAN. Thank you, because in this whole thing, no matter which way it is done, no matter who is ripping it off, I notice the final arrow goes down to where the taxpayers pay the bill.

Mr. BURRIS. That is where it ends up, Mr. Chairman.

The CHAIRMAN. That is sort of the bottom line. No matter who is stealing, it is all of us, as taxpayers, who pay the bill.

Mr. BURRIS. That is correct.

The CHAIRMAN. Thank you very much. Senator Lugar?

Senator LUGAR. Attorney General Burris, you mention there were in the WIC Program as many as 1,400 vendors and 249,000 participants.

What percentage of these are involved in the fraud that you are describing today? As you mentioned, as much as millions of dollars might be involved, which means multiplication of many of these payments. But from your investigations, we know of the indictments that you have and we applaud that, but can you give any idea, as you took a look at the universe of situations, how many are suspect?

Mr. BURRIS. Senator, what we know is that a lot of them are working, and the program is working well. I mean, there is food getting to the women and to the infants and the children.

But there is that hard core element out there, which we do not know the number of, that are involved in this program, and that is our ongoing investigation.

As I said earlier, we try to do it through administrative rules and through civil action by restricting them, by making them make restitution, and all those other steps. So it could have just been error with some of those vendors.

But some of these individuals are operating out of—and we are still seeking to do that—operating out of storefronts that probably had little or no inventory. I mean, they were not even in the business of producing the product, but they were in the business of laundering these certificates.

Senator LUGAR. Do you have records of how many vendors you have actually investigated?

Mr. BURRIS. Do we know that, John?

Mr. PERKAUS. How many we are investigating at this time?

Mr. BURRIS. Yes.

Mr. PERKAUS. Approximately 50 to 60.

Mr. BURRIS. About 50 to 60, my prosecutor tells me.

Senator LUGAR. How did you trigger this investigation for yourselves, or what brought this to your attention?

Mr. BURRIS. The Department of Public Health, through its computer tracking system, began to track the unusual transactions by some of these vendors and the amounts of transactions by these vendors, which put them on the alert. They have their own small investigative forces, and they started to try to check out things, but they were not really able to get good, hard core evidence, so they came to us, and we said: Well, in order for us to have good, hard core evidence, we have got to go undercover to really nail this down for criminal prosecution.

So the Department of Public Health initiated the contact with the Illinois State Police and the Attorney General's Office, and when we all sat down, we then planned our strategy to move on the overall problem.

Senator LUGAR. You have mentioned these computer printouts at the banks and now perhaps computer printouts at the Department of Public Health. To some extent, it would appear that these printouts are perceived as a control, even by those who are trying to defraud the Government. In other words, as you mentioned the spacing out of the amounts, so that not too much would show up in a printout, it would indicate that there is some recognition of these printouts as at least an enemy of fraud.

Mr. BURRIS. Certainly. That is definitely the trigger, and we applaud the Department of Public Health for setting up a tracking system on all of those vendors.

And, of course, you know, in the initial process, when you see a vendor turning over $7,000 or $8,000 a month, and he does not have much of an inventory when the investigator goes out and spots his little storefront or his operation, and he is churning out that many sales, well, a red flag goes up.

Mr. PERKAUS. Or $100,000 a month.

Mr. BURRIS. I am sorry. It is $100,000 a month.

Senator LUGAR. General Burris, do you or your associate have any comment about the electronic benefits transfer idea; that is, moving from stamps or coupons to an electronic trail?

At least if the computer situation is one that offers some control, and it appears to be the case in Illinois, would there be further value in carrying this further and getting out of the instruments of the coupons and the stamps that we now have?

Mr. BURRIS. Senator, I am sorry. I do not think I am the expert to answer that, because we are using the coupons, and the only experience I have is that the system that tracked the actual certificate itself, and that is what we were able to acquire and then sell. So I am not really——

Senator LUGAR. I understand.

Mr. BURRIS. OK.

Senator LUGAR. I was just pushing ahead to at least one further thing that the committee is examining.

Mr. BURRIS. Oh, I see. I do not know how computerizing that certificate would work, if that is where you are heading.

Senator LUGAR. Thank you very much.

Mr. BURRIS. Thank you very much, Senator.

The CHAIRMAN. Thank you. Senator Feingold?

STATEMENT OF HON. RUSSELL D. FEINGOLD, A U.S. SENATOR FROM WISCONSIN

Senator FEINGOLD. Thank you, Mr. Chairman. I, too, want to thank you for your obvious leadership in attempting to eliminate fraud and abuse in these Federal nutrition programs.

I have had a chance to review some of the accounts of fraud in the Food Stamp and WIC Programs, and like all Members of the committee, I find it troubling.

Both the Congress and the administration have struggled these past few years to find the funds to move toward full funding of WIC, and that has not been done without cost to other programs. But we all recognize that WIC is a valuable investment, and we have set out priorities accordingly.

The Food Stamp Program has grown as a proportion of the USDA budget, so that we can just provide the current services level. The program is also critical to eliminate hunger in the United States, and it reaches a very broad constituency.

The degree of fraud and abuse, in these programs, disturbs me because it means that our tax dollars are not going as far as they should. It is not acceptable, in light of the Federal budget deficit, which both the administration and the Congress have been working to reduce.

It also means something else. It means that the fraud we are talking about today causes administrators and nutritionists and case workers who work on these programs have to put their time and money and resources into investigating wrongdoing, rather than doing what they do best and what they want to do, which is to help feed hungry children, adults, and our senior citizens.

Instead of looking for ways to feed more people and improve program quality, we are forced to put effort into finding ways to identify and prosecute those who defrauding the system. It is a poor use of the great talent that we have in the Department of Agriculture and the talent of others who are working as advocates in the area of nutrition and welfare.

So I am looking forward to some of the solutions that we will learn about today, Mr. Chairman, and my questions for the Attorney General of Illinois relate to your comments about determining who are the major wrongdoers in this area.

You stated that the vendors were the number one problem. I think that is going to be of interest to many Americans who may assume that it is the recipients who are the real troublemakers.

Some of the figures I have seen from FNS investigations of retailers indicate that most of the retailers who are caught conducting illegal transactions are often guilty of more than one offense and that they are, in fact, repeat offenders.

So my question has to do with what we can do short of prosecuting every retailer. It would be my hope that there would be some other penalty that can be levied. My question then is: Is

there currently a requirement that vendors must be authorized or licensed by State agencies? Is that the way it works?

Mr. BURRIS. That is correct. They must be licensed, Senator, and and one of the steps that they are moving to now—and it is just a matter of distribution in Illinois—the Department of Public Health is seeking to license WIC stores, which will be run by a not-for-profit organization like the Catholic Charities, for example.

The only problem is the number of stores and the proper distribution, so that the recipients could travel to that facility. The reason why you have 1,400 stores in Illinois is because of the accessibility question, and that accessibility question would have to be resolved.

Yet, we are definitely looking at other ways to disperse this, so we can deal with that unscrupulous vendor.

Senator FEINGOLD. Is there licensing under both the WIC and the Food Stamp Program?

Mr. BURRIS. Well, I understand that that is certainly so under the WIC Program. I am not familiar with the Food Stamp Program.

Senator FEINGOLD. What are the criteria for disqualifying a vendor for their license? What are the standards that are used to disqualify?

Mr. BURRIS. Well, certainly, you know, just exchanging the wrong types of food, for instance, they might come in with a coupon, and they will get—they will do cigarettes and liquor or something rather than the nutritious food. That could be a reason for discipline.

Overcharging. The key one is overcharging where the recipient signs that coupon, and the sale may have been for $24, but the merchant will write in $29.99 on a $30 coupon. Even though the recipient got foodstuff for $24, the vendor put on him a processing fee to change the amount, and, of course, the recipient is sitting there, and he does not really know what the problem is, or if he were to say something, how can he stop the person from putting in the numbers. So he or she has the food, and they are gone, and they make the changes.

So those are some of the activities that go on.

Senator FEINGOLD. About how frequently, do you know, are vendors disqualified in these programs for this kind of activity?

Mr. BURRIS. Do we know, John, how many vendors the Department of Public Health has disqualified?

Mr. PERKAUS. Approximately 100 since they took over the administration in 1990.

Senator FEINGOLD. One hundred, did you say?

Mr. BURRIS. One hundred vendors.

Mr. PERKAUS. A little over 100; yes, sir.

Senator FEINGOLD. Can they appeal a disqualification?

Mr. PERKAUS. Yes, they can. There is a full appellate process available.

Senator FEINGOLD. Can they continue to act as a vendor while they appeal process is underway?

Mr. PERKAUS. I think that depends upon the charge that is levied against them, how severe it is and a number of other factors.

Senator FEINGOLD. While they are appealing, if they can continue operating as a vendor, has this in any instances been a source of continuing abuse? Do these folks just keep on going while they are——

Mr. BURRIS. Well, that is when we proceed to try to get injunctive relief. One of them had been discertified, and he continued to try to service them, so we had use our civil powers and enjoin this vendor from continuing to participate in the program.

Senator FEINGOLD. My last question, Mr. Chairman, is: Are there any States we can look to besides your own that do a very good job of catching and preventing this kind of fraud? If I were to talk to the folks back in Wisconsin and say, if you want to draft something like this, which States would you cite as models besides your own?

Mr. BURRIS. Well, I know all of my fellow colleagues, attorneys general, across our other 49 States, and I think certainly the bigger States where you have the lower-income population, that is where you would want to start. Certainly in the Midwest, we do have those types of populations.

Senator FEINGOLD. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

We have used home delivery in Vermont, which seems to help a great deal.

Senator Grassley? I am going in the order that people arrived.

Mr. BURRIS. Mr. Chairman, may I respond to Senator Feingold?

The CHAIRMAN. Oh, sure, of course. I am sorry.

Mr. BURRIS. My assistant just advised me that New Hampshire and the State of Alabama do have WIC statutes.

Senator FEINGOLD. Thank you.

STATEMENT OF HON. CHARLES E. GRASSLEY, A U.S. SENATOR FROM IOWA

Senator GRASSLEY. Mr. Chairman, I want to thank you, as Chairman for your legislation, but also for your leadership in one very important State for cutting down on fraud. It is so important for the integrity of the program and public support for the program. Mr. Burris, I hope you have taken advantage of all opportunities to get your crew, say, out to the people at large, and I hope that you have been complimented for your efforts. I hope that the public has seen your efforts as noteworthy of compliment, but also that they feel that you have made a real accomplishment and real progress, not only for the normal conviction that would go on in the criminal law, but also to bring integrity to the program.

So I might ask you: Do you feel like the message has gotten out, which not only provides satisfaction to the taxpayers, but also a warning to other people that might commit fraud?

Mr. BURRIS. Senator, we certainly hope that the message has gotten out, and that is what we intended to do when we indicted those individuals. When I had the press conference, I stated: Let this be a warning to all the vendors and those employees, that you do not ever know who you are dealing with and treat every recipient as if it is an undercover agent. So therefore we want you to be transacting these coupons for the benefit of those women, infants, and children.

Unfortunately a couple of them did not get the message, because they continued their activities, and we proceeded to go after them, and we are now indicting them. So our investigation is ongoing, and we are going to stick with it until that message is clear.

Senator GRASSLEY. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much. Senator Harkin?

STATEMENT OF HON. TOM HARKIN, A U.S. SENATOR FROM IOWA

Senator HARKIN. Mr. Chairman, thank you very much. Again, I want to join my colleagues in thanking you for holding this important hearing on fraud in the Federal nutrition programs. It is something that a lot of us have been working on for a number of years, since the mid–1970's when I first served on the nutrition subcommittee in the House Agriculture Committee.

It seems like when you put a plug in one place, something else opens up somewhere else. There is always someone gaming the system someplace. But I believe we have made progress in the past in terms of tightening down on the system.

I also want to publicly congratulate Mr. Burris, the Attorney General of Illinois, for all that he's done his State. You have shown great leadership in this area. I think you have pointed the way for a lot of other attorneys general around the country.

Mr. BURRIS. Thank you, Senator.

Senator HARKIN. I just want to compliment you, personally, on what you have done in Illinois, and I agree with what you said, you have sent a signal out and a great warning to a lot of people that they had better shape up, especially the vendors who are out there and the people that are gaming this system. So I congratulate you for your very strong leadership in this area.

You are doing two good things. You are helping the people who need food stamps and who need WIC, who legitimately rely on those programs to help feed their kids, and second you are protecting the taxpayers' dollars.

Mr. BURRIS. Thank you, Senator.

Senator HARKIN. I congratulate you for that.

I would just like to ask one question, Mr. Chairman, and that is of Attorney General Burris.

I did not hear all of your comments before I came in the room, but in your written testimony, you said that some of those who were involved in fraud were also involved in drug dealings. What I wanted to know is: What share of the fraud and the activities that you described are attributable to drug or alcohol addiction? How close is this connected? Is this a big part, a small part? What part does this play in it? Are drugs involved in this also?

Mr. BURRIS. Yes. I mean, our undercover agents certainly came across drug transactions. So these vendors are generally just bad people. I mean, other things we came across in the State of Illinois is just truckloads of unstamped cigarettes. The guns that we came across, food stamps were part of it. So they were engaged in a whole litany of illegal activities.

Senator HARKIN. Are the fines stiff enough? I think the civil penalties, I am not certain what they are, but if I am not mistaken,

they generally run around $1,000 or $2,000 per violation or something like that. Maybe Ms. Haas will talk about that later.

Yet, I have been told that that is really not much of a threat, if they have to pay a $1,000 fine or a $2,000 fine. They are making a lot of money.

Mr. BURRIS. Not with what we have seen in these cash transactions. If we are talking about the vendors, that is peanuts, and that is what we are doing. We are raising the amount. I see Senator Leahy has even put in an increased amount in the Federal bills. So, yes, we are raising the fines.

Senator HARKIN. Well, I would hope so.

Again, Mr. Chairman, I want to congratulate you for your leadership in this area. But having chaired the nutrition subcommittee for some time under your leadership and then also in my prior years in the House of Representatives, I would just make two observations.

We talked 15 years ago about going to some kind of electronic system. I think the reasons we did not at that time is that the systems just were not in place. They are in place now, and I think, we really ought to take a hard look at going to an electronic type of a system which can uncover any kind of fraud or any kind of invasion of that system much more rapidly than if you have printed coupons.

The initial cost of doing that may be high, but I think the savings that we will get, and the assurances to the public that their dollars are being spent on what they intended them for—and that is food for people that need food—will help us in this program. So I hope we will take a look at that.

Lastly, I must publicly say that in the past food stamps always seem to be a very convenient whipping boy, if I can use that expression, in terms of Federal programs. Yet, I would just point out that the average per person benefit on food stamps now is $69 a month. That is 57.5 cents per meal.

Two-thirds of food stamp recipients are children, elderly, or people with disabilities. Half of them are children. Over 80 percent of food stamp benefits go to families with children.

So again we have to keep this in mind. Hungry children are among the most vulnerable in our society. They have virtually no ability to prevent food stamp fraud, and they must be helped and not hurt by our reform efforts, and I hope and trust that we will always keep that in mind.

Thank you.

The CHAIRMAN. Thank you.

[The prepared statement of Senator Harkin follows:]

STATEMENT OF SENATOR HARKIN

Mr. Chairman, thank you for holding this important hearing on fraud in the Federal nutrition programs. Any abuse of Federal programs is a very serious matter, but several aspects of nutrition program fraud provoke a higher degree of outrage.

Taxpayers feel that they have been ripped off and duped because their tax dollars—which they've been told are going to alleviate hunger—are instead going to support illicit activities or to enrich crooks who convert food stamps or WIC vouchers into black market currency.

Nutrition program fraud also means inefficiency and waste in the use of our Federal resources. It makes it just that much harder—and means we have to spend

that much more—to feed our people when some are cheating the system. The principle is pretty simple: you're never going to keep your pantry full if you have a pack of rats carrying off your food.

What really gripes me about fraud in nutrition programs is that it means that people are going hungry, because they are not getting the food those benefits are meant to buy. Stamps or vouchers that are stolen—sold for cash, or traded for drugs or guns, are not putting food on the table.

So we need to make sure the rules and penalties are tough, and that they are enforced. We also need to get a clearer picture of the nature, and scope of nutrition program fraud, to give us a better chance to aim our efforts in the right direction.

We need to understand the different types of fraud involved, and their relative importance. Some people cheat by obtaining more benefits than they are entitled to. There is no excuse for that and it must be punished. But the potential for this kind of fraud is limited, and the available data on food stamp recipient fraud confirm that.

The big money lies in the fraud perpetrated through theft, trafficking, and counterfeiting—and that is where the big fish get involved. These types of fraud can only be pulled off with the involvement of retailers, and others who are not program beneficiaries.

So as we come up with ways to crack down on nutrition program fraud, we need to focus on the criminals who are at the heart of the problem. There is a danger, that honest recipients, who are in real need, will pay the price for the criminality of others. Let's not kid ourselves: many truly deserving people went hungry, thanks to Reagan era cutbacks in food stamps, that were promoted in the name of cutting out fraud.

There is no bonanza in food stamps. The average per person benefit is $69 a month. That works out to 57.5 cents a meal. Two-thirds of food stamp recipients are children, elderly or people with disabilities, and fully half of them are children. Over 80 percent of food stamp benefits go to families with children. Hungry children are among the most vulnerable in our society. They have virtually no ability to prevent food stamp fraud and they must be helped, not hurt, by our reform efforts.

Thank you, Mr. Chairman.

The CHAIRMAN. You know, when we talk about the electronic use, I cannot help but think about what has happened out in Los Angeles with the earthquakes. There is about $200 million a month that is spent on food stamps in Los Angeles under normal circumstances. There has been about an additional $170, projected on a monthly basis, that has been requested because of the earthquake.

The problem we have is the people going in there basically come in and kind of reapply all over the place. If you are already on, they would not be clogging up the lines, and the whole disaster relief could work quicker, because electronically their benefits could just be adjusted accordingly.

It is just another example where not only would it save money, but it would also cut back fraud.

Mr. BURRIS. Mr. Chairman, may I comment on that?

The CHAIRMAN. Sure.

Mr. BURRIS. I have been an old comptroller, and in running those computer systems to keep track of cash and our expenditures, I would just caution you. My biggest expense was trying to prevent somebody from getting into the system and defrauding the system and us not know it. So I would just give a caveat.

The CHAIRMAN. That is a good point.

Mr. BURRIS. When we go to the electronic system, you are going to have to really invest, and somebody getting into those systems and you not knowing it and a big fraud takes place, then by the time you catch it, it is big.

The CHAIRMAN. That is a good point.

Mr. BURRIS. So please keep that in mind.

The CHAIRMAN. That is a very good point.
Senator McConnell?

STATEMENT OF HON. MITCH McCONNELL, A U.S. SENATOR FROM KENTUCKY

Senator MCCONNELL. Thank you, Mr. Chairman.

Last March, I introduced, along with Senators Lugar, Dole, Helms, and Grassley, legislation to toughen the penalties against retailers and recipients who traffic in food stamps. My bill also gives the Department of Agriculture the investigative tools it needs to thoroughly investigate suspected fraud and trafficking abuses.

I was pleased that the administration supported this legislation in last year's budget reconciliation bill.

Proposals to strengthen the penalties on those who trade food stamps for cash, drugs, and guns have been signed into law, and I am continuing to work to see that the Department has the proper authority to carry out its oversight and investigative responsibilities.

So the Chairman is to be commended for his legislation and interest in this area, as are you, Attorney General Burris.

Most of the obvious questions have been asked. I am curious, however, as to whether or not there were some similarities in the profiles in the stores that you ended up raiding. I gather there were 13 or so.

Mr. BURRIS. There were 13 corporations, yes.

Senator MCCONNELL. Yes. Was there a certain profile that was similar among those, certain things that, you know, kind of give you a hint as to where to look next, or is that revealing too much of your tactic?

Mr. BURRIS. Well, we want to be careful not to go on the record with some of this information, because there were profiles that we can look at and begin to put together a pattern of behavior and begin to track some of the behavior, and we do not want to reveal all that at this point.

Senator MCCONNELL. Yes, I can understand that; but there were some——

Mr. BURRIS. Some of these operations, however, were just maand-pa stores. I mean, they were not big, elaborate facilities that was just doing this on the side. These were storefront operations that were operating this way, and it had very little or no inventory in itsacility. It was just the cash for the coupon or the certificate discounting operation that they were running and selling very little product, if you will.

Senator MCCONNELL. You indicated you were advocating legislation in Illinois in the current session of the General Assembly; is that correct?

Mr. BURRIS. That is correct.

Senator MCCONNELL. I am curious as to just what you are recommending that the State do. What is that legislation? How does it follow up?

Mr. BURRIS. Well, we are going to put in legislation so that the WIC Program would be in our criminal statute, and it would be spelled out. Specifically, the wrongful transfer or the cash transactions of any of these certificates, depending on what the amount

of it is, it could be a Class A misdemeanor, if it is $150 or under. If it gets into the $1,000 range, it then goes into the Class 1 felony, Class 2, Class 3. If you get up to $10,000 in transactions, this would end up being a Class 4 felony which could get you up to 10 years in prison.

Senator MCCONNELL: What is the fine? A $10,000 fine?

Mr. PERKAUS. Yes, sir.

Mr. BURRIS. So we have drafted here a piece of our legislation which we——

Senator MCCONNELL. Have other States gone in this direction?

Mr. BURRIS. We do know of two States, as I testified earlier——

Senator MCCONNELL. Yes. Which two did you mention?

Mr. BURRIS. Alabama and New Hampshire have a WIC statute on their books. I know of no other State that has moved in that direction.

Senator MCCONNELL. OK. Well, thank you very much.

Mr. BURRIS. It was my pleasure, Senator. Thank you.

Senator MCCONNELL. Thank you, Mr. Chairman.

STATEMENT OF SENATOR MCCONNELL

Mr. Chairman, I want to thank you for holding this hearing today. This hearing is timely not only in relation to the incidents occurring in Los Angeles, but also with the abuses that transpire everyday in the Food Stamp Program. As you know, I have a long-standing interest in curtailing fraud in the Food Stamp Program, and this hearing provides an excellent opportunity to discuss the steps we need to take to improve the operation of our Nation's largest food assistance program.

We must make sure that the Government has the ability to properly monitor the program, enforce the rules, and maintain the integrity of all of our nutrition programs. The taxpayers are correct in demanding accountability and intelligent use of their hard earned tax dollars.

Last March, I introduced, along with Senators Lugar, Dole, Helms, Grassley, and others, legislation to toughen the penalties against retailers and recipients who traffic in food stamps. My bill also gives the Department of Agriculture the investigative tools it needs to thoroughly investigate suspected fraud, and trafficking abuses. I was pleased that the administration supported my legislation in last year's Budget Reconciliation Bill. My proposals to strengthen the penalties on those who trade food stamps for cash, drugs, and guns, have been signed into law, and I am continuing to work to see that the Department has the proper authority to carry out its oversight and investigative responsibilities.

One trend that has concerned me, however, is the administration's push for a cut in the amount of money that States use to fight fraud in the Food Stamp Program. In the Reconciliation Bill, the Federal share of anti-fraud money going to States was reduced from 75 percent to 50 percent. During tight fiscal times, I believe we need to be particularly concerned about how our taxpayers' money is being spent. We need to ensure that the food stamps are being used for the intended purpose—to help needy Americans buy food to supplement their diet.

I believe an electronic delivery system holds a lot of promise for the Food Stamp Program. From reducing trafficking abuses, to improving service to recipients, to cutting down on administrative costs—government-wide, EBT has the potential to positively affect the Food Stamp Program. However, I do not want to mislead the public into thinking that EBT will solve all of our problems with fraud and abuse. We need to continue to push for giving USDA the proper investigative tools it needs to pursue suspected retailers, and for government policies that promote anti-fraud efforts, on both the State and Federal levels.

I am pleased to see the wide array of witnesses here today to discuss steps we can take to crack down on the criminals, improve the management, and strengthen the integrity of our nutrition assistance programs.

Senator CONRAD. Mr. Chairman?

[Laughter.]

The CHAIRMAN. Senator Conrad, we are glad to have you here with us.

Senator CONRAD. I apologize——

The CHAIRMAN. You have to understand, General, that the laughter had nothing to do with your testimony.

Mr. BURRIS. I understand.

The CHAIRMAN. There is a little inside joke going on up here.

Senator CONRAD. He just tells me that they voted unanimously not to recognize me.

[Laughter.].

Senator CONRAD. I just spent 2 hours at the dentist, and I am wondering if we could have a hearing on dentists next week?

[Laughter.].

The CHAIRMAN. It gives you an idea of how he feels about the Chairman of this committee. He would rather spend 2 hours at the dentist's than be here at a hearing and hear my opening statement. I mean, that kind of tells you something.

[Laughter.].

The CHAIRMAN. Go ahead, Senator Conrad.

STATEMENT OF HON. KENT CONRAD, U.S. SENATOR FROM NORTH DAKOTA

Senator CONRAD. Thank you, Mr. Chairman, for holding these hearings. I can say to you that fraud in these programs is not a problem in North Dakota, and maybe if we could extend the North Dakota ethic around the country, we would have a lot less problem.

We have been checking with our people back home. We found one instance, one instance, where somebody was involved in a fraudulent activity with respect to these programs.

Clearly that is not the national experience, and I want to salute you, General Burris, for the active stand that you have taken in your State to try to prevent this from happening.

I am very interested to know, what is your impression of what your activities have done in terms of discouraging others from engaging in fraud. Do you have any measure of whether or not activity by people who would defraud the program has been affected by the high-profile nature of what you have done?

Mr. BURRIS. Senator, we are not able to measure that at this time, though we do think that the message is out there. As I said a few moments ago, though, we have to question that, because some of these vendors evidently do not believe it, because our investigation has continued, and we just indicted a couple more the other day, because evidently they made this their living, and they are just going to run until they get caught.

So we are going to prosecute until we catch them all, and we are sending the message, and I am pretty sure that it has gone through their network.

We are going to have to get as sophisticated as they are, because they are not going to give up this cash cow that easily, and we are going to have to tighten up our steps, too, and keep the safety of our undercover officers in check as a result of this, because for a small network of these individuals, this is their living. It is big money.

Senator CONRAD. Do you have any sense of how big this network might be?

Mr. BURRIS. Well, as we said, there were about 100 that we have had some problems with, that have been suspended. Of course, there are now 22 that we have indicted, and we have indicted not only the individuals, but we indicted the corporations that they were operating under. The investigation is continuing, and there is an offshoot over here and an offshoot over there, and we are following down every lead, and we are going to try our best to clean them all out.

Senator CONRAD. Have you shared the experience you have had with other attorneys general? Do you have a way of sharing this information?

Mr. BURRIS. Oh, yes, we definitely do, and this will be written up in our newsletter, and the word has gone out to my fellow attorneys general to please look at this program. Yes, it was.

Senator CONRAD. Well, thank you. I very much appreciate what you have done. I think you have shown real leadership, and I think it is very useful, the information that you have shared with this committee. I thank the Chair.

Mr. BURRIS. Thank you, Senator.

The CHAIRMAN. General and Mr. Perkaus, thank you very, very much for being here.

Mr. BURRIS. Thank you, Senator.

The CHAIRMAN. As you go along, I would appreciate it if you might drop me a line or give me a call periodically and tell me what works and what does not work in your investigation. That would be helpful to us.

Mr. BURRIS. Mr. Chairman, we will keep you advised, and we will keep you informed, and we will also talk to any other Senators you want us to, help you out with your legislation. Thank you very much.

The CHAIRMAN. Thanks for joining us. I must say Chicago was one of the few places that I saw a couple times in January, where it was colder than my home in Vermont—and that was pretty cold.

[Laughter.].

The CHAIRMAN. Thank you.

Mr. BURRIS. My pleasure, and Members of the committee, thank you.

The CHAIRMAN. Our next witness is no stranger to this committee, Ellen Haas, the Assistant Secretary for Food and Consumer Services from the Department of Agriculture, has probably spent as much time and work as anybody in the Department on this issue.

I know that you have to leave to be at an event with the Vice President in a relatively short while, and we will do everything possible to work out that schedule.

I must say, just as a personal point, I have talked with some of the people in California, and also I have listened to some of the news accounts, and you and your department are to be commended for what you have done in setting up food stamp distribution and moving so rapidly in what, of course, has been a terrible, terrible disaster.

Coming from a small rural State as I do, the numbers are mindboggling to me. But I do want to commend you and all who have worked with you in what you have done in setting up disaster relief.

STATEMENT OF ELLEN HAAS, ASSISTANT SECRETARY FOR FOOD AND CONSUMER SERVICES, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, DC.; ACCOMPANIED BY GEORGE BRALEY, ASSISTANT ADMINISTRATOR

Ms. HAAS. Thank you very much, Mr. Chairman.

I also would like to commend you for your leadership, and it really is a dual leadership. It is one that has promoted access to a healthy diet for those many Americans who are needy, so that we do not have hunger in America. Also, it has been one that has promoted our fight against fraud, and I think that this hearing is very, very important.

Also, Senator Lugar, I could not agree with you more, how inextricably linked is program integrity, and promoting the confidence in these programs that serve so many millions of very needy people.

Ms. HAAS. I am very pleased to be here at this important hearing. I am accompanied by George Braley, who is our acting administrator. I wish that I would have had in place—not that George is not a very important person to accompany me—our new administrator, Bill Ludwig.

Only 5 days after Bill came onboard, he went out to Los Angeles, where he has been on the ground from early in the morning when I talked to him at 5:00 a.m. his time to late at night, seeing that we are delivering the benefits that are needed and doing it in a way that reduces fraud. I spoke to him this morning, and Bill told me that the lines now are somewhat smaller, but still we are seeing lines in some places of 1,000 to 5,000 people. But I will share with you our statistics.

I had the occasion to be there in Los Angeles at the time that the earthquake hit. I was violently jolted out of bed at 4:30 in the morning in a hotel on the 23rd floor with all glass windows, when my room went from one side to the other and lamps flew across the room.

Then I traveled to the shelters where I did see how the Red Cross got out so fast, and we were there so fast as well.

So this hearing has a great deal of meaning to me, personally, because there are many millions of people who depend on us, and if we permit fraud, then benefits could someday be taken away from needy people.

This hearing is one that Secretary Espy and I place great value in, because we need to reduce any opportunities for fraud and abuse in the Federal nutrition programs.

I realize that there have been some recently publicized instances of food stamp trafficking and program losses. We know, as we heard the Attorney General so eloquently talk about earlier, that despite WIC's successes, there are unscrupulous individuals who will defraud the program by manipulating the WIC food instrument.

Fraud and abuse in the Department of Agriculture's food assistance programs will absolutely not be tolerated. The health and well-being of millions of low-income people depends upon the food security of the Food Stamp Program and the WIC Program. That is why the administration is being so tough with the crooks that we find in Los Angeles who try to profit from the misery of others.

Our antifraud activities there are guided by three principles: notification, verification, and investigation.

First, we have been proactive in notifying all those who stand on those lines with media and flyers that would-be criminals could face fines up to $250,000 or up to 20 years for committing a crime.

Second is verification. A computer database system verifies information supplied by every person applying for food stamp assistance to safeguard against multiple issuance. There are many people on line. You hear stories that they could go from one site to another. By having a computer system that verifies that the person is only getting food stamps once, we are protecting against that kind of abuse.

Finally, USDA has teams of investigators in the field identifying instances of trafficking, fraud, and abuse. Just this Saturday, five people were arrested for trafficking, and we expect more. We will simply not tolerate these disaster profiteers feeding on the misfortune of those in need.

I would like to begin by talking about one of the most serious forms of food stamp fraud and abuse, and that is trafficking. Trafficking occurs when a person approaches a recipient—oftentimes they are just coming out of the issuance office with the food stamp coupon book—and offers to buy his or her food coupons, usually at a 50 or 60 percent discount.

Trafficking also can occur in a grocery store when a cashier rings up an eligible food sale, but no food is really being purchased. In fact, that sale was for non-existent groceries and provides the recipient with cash, again at a discount, in exchange for food coupons.

Trafficking is illegal, and it reduces a food stamp household's ability to meet its food needs.

All food stamps are redeemed by retailers who deposit and receive cash for them in the normal course of doing business. Stores that traffic in coupons tend to have unusually high redemption patterns compared to similar stores in their own neighborhoods or redemptions out of line with the sales data they report.

When, with our computer-based systems, we see these patterns, we can take a closer look and move in. Last year, to give you some numbers, USDA's Food and Nutrition Service (FNS) investigated 4,644 stores. You have to realize that we have 207,000 stores that are authorized to redeem food stamps. We found 2,147 stores with had violations, and 1,387 stores were serious enough to warrant disqualification and a civil money penalty. We found 841 instances of trafficking where store personnel bought food stamps from FNS undercover agents posing as food stamp recipients.

The Office of Inspector General conducts further investigations in instances where major fraud or organized crime is suspected. Investigations occasionally discover food stamps being redeemed by unauthorized stores. In the past year, under Secretary Espy's leadership, FNS has made progress towards putting a stop to this. However, monitoring 207,000 stores is time-consuming, expensive, and labor-intensive. Under the current paper system, there are really few alternatives that are available to us to reduce the cost.

We appreciate the committee's support, however, in sponsoring antifraud legislation this past summer in the Omnibus Budget

Reconciliation Act that Senator McConnell talked about earlier, and in the Food, Agriculture, Conservation and Trade Act of 1990.

We, at the Department, have already begun by holding public hearings and meetings to speed up the implementation of the Mickey Leland Childhood Hunger Relief Act provisions that you talked about to fight fraud. Thanks to the recent legislation, firms caught trafficking face civil penalties up to $40,000 per investigation. Unauthorized firms who redeem food stamps face fines of $1,000 per violation, plus an amount equal to three times the value of the coupons.

Stores that accept loose coupons face fines of $500 for each instance where they are caught, plus an amount of double the value of each coupon illegally accepted. Unlawful users of coupons, authorization cards, or access devices now face very long prison terms and up to $250,000 in fines.

USDA vigorously investigates and vigorously pursues criminal activity and abuses involving food stamps to the best of its ability. Yet, in spite of our efforts and legislation aimed at reducing systematic opportunities for food stamp fraud, there are limits to how much we can accomplish within the current system.

Mr. Chairman, the need for change, the time for change is past overdue. Today's hearing also focuses on an extraordinary opportunity to change the way food stamp benefits and other cash benefits are delivered—a chance for us to reinvent the Food Stamp Program and to reinvent it with this card that can be used in a way that will cut down on fraud, promote efficiency, and also promote dignity for those recipients.

By far, the most promising solution on the horizon is electronic benefits transfer technology that many of you have talked about earlier this morning.

We, at FNS, have been testing food stamp issuance through EBT since 1984. We now have the evidence, however, that this technology may be able to efficiently, affordably and securely deliver the benefits to improve the quality of service to food stamp recipients and reduce the stigma associated with paper coupons. With EBT, recipients no longer have to worry about their benefits being lost or stolen. One hundred percent of food stamp benefits go to purchase food. The card eliminates any kind of cash change that takes place in the store.

Issuing food assistance benefits electronically revolutionizes the way we protect these benefits from fraud and abuse. Unlike paper coupons, the selling or trading of an EBT card is extremely difficult and links the culprits to the crime. Would-be traffickers must use a store terminal and have the recipient's card and personal identification number in hand, in order to determine the value of benefits contained in the card. Then, the terminal must be used to access the benefits.

Meanwhile, these transactions are being electronically recorded. We can identify the store, the date, the time, the purchase amount, and the recipient's card number and the point of sale terminal. This information is examined and analyzed by the computer, quickly identifying suspicious patterns. It speeds our ability to investigate, process and remove these stores from the program. Also, once we turn off the terminal, no further transactions can be made.

Last summer, I traveled to Albuquerque, New Mexico, where I announced the findings of a new study that looked at the EBT program in Albuquerque and in Ramsey County, Minnesota. What we found there was that 3 to 24 percent of the administrative costs of the paper-based system could be saved, and up to 75 percent of the losses because of diversion, which includes the losses of the recipient, as well as the losses from trafficking, could also be saved.

While in New Mexico, I joined with Governor King in chairing an EBT roundtable, where I found out how the food stamp recipients, the banking community, and the food retailer community all had positive comments and enthusiasm for moving to this system.

Let me say that Secretary Espy has made nationwide EBT a major priority for us at the Department of Agriculture. He named me to the EBT Interagency Task Force, where I serve as vice chair. The other vice chair is from HHS, which has responsibility for many of the welfare programs that also can make use of this card.

USDA is well under way in its EBT efforts, and currently we have six States that are operating on-line projects—Pennsylvania, Minnesota, New Mexico, Iowa, Maryland and yesterday New Jersey began its program. South Carolina has contracted for the development of a system and will begin in the future. However, Maryland is the only State that is statewide. So there also needs to be a great deal of emphasis in moving quicker, and, for that reason, the Interagency Task Force on EBT is providing a plan that is going to be submitted to the Vice President later in March.

Also, let me say that we are exploring government-wide the use of EBT to see that other programs can work together with the Food Stamp Program, so that we can move this further along for AFDC and, Social Security recipients.

We are also exploring a smart card for WIC, but we also have to be sure that it does not undercut our price containment efforts at the State level. The range and importance of the issues before both the Interagency Task Force, USDA, the agencies and this committee are very complex, when you talk about moving to an electronic benefits transfer system. However, they are not daunting. We are moving ahead as quickly as we can. We are moving ahead also to better serve the needs of individuals who depend on USDA's food assistance programs.

In recent years, the misdeeds of a few have cast a shadow over millions of honest, yet struggling, low-income families and threatened to erode public support for the Food Stamp Program. EBT holds the key to delivering food assistance benefits, as well as other cash assistance benefits for other programs EBT does this safely, and with dignity, to eligible recipients, while keeping benefits from being a temptation and a target.

With your help, the administration intends to provide the necessary leadership to make it possible for all States in this country to initiate EBT by 1996.

Mr. Chairman, and Members of the committee, I will be happy to answer any questions you might have, and I thank you very much for your consideration.

The CHAIRMAN. I would ask, in addition to the food stamp assistance out in Los Angeles, are we making other commodities available, for example, through TEFAP or anything like that?

Ms. HAAS. Absolutely. In fact, our delivery of commodities started the day that I was there. I saw the shelters that depend on those donated commodities from USDA. So far, we have delivered more than 14 trucks, 260,000 pounds to Red Cross and other volunteer agencies. We have also moved that up in recent days to 75 trucks that have been approved, and that means we are delivering over 2.5 million pounds of food to needy people.

The CHAIRMAN. That started almost immediately, is that correct?

Ms. HAAS. Yes, that started almost immediately. We have to wait until the counties request that USDA provide those commodities, but there were commodities. I was at a site in Los Angeles, at Silmar, and I went into the kitchen. The shelters in Los Angeles are outside. Many of the people are afraid to be in a building, also because the school lunches are served outside, they can handle that. I then went into the kitchens and saw USDA commodities that were being served.

The Red Cross did a fantastic job, as well, getting contributions from many restaurants. The pasta that night had been given by a restaurant. But our commodities were right there being ready to be served.

The CHAIRMAN. Thank you.

Senator Lugar?

Senator LUGAR. Ms. Haas, what will be the effect of Regulation E, if it is imposed by the Federal Reserve Board, and what will USDA's response be?

Ms. HAAS. USDA has already made a response on Reg E, because we are very concerned about the amount of cost and that the cost is to the taxpayer, and it will have a chilling effect on our implementation of EBT.

Since that time when our first notice was sent over to the Federal Reserve Board back in the spring, the Interagency Task Force, of which I am a vice chair, has had meetings with the Federal Reserve Board, and we have communicated our grave concern about the implications of Regulation E for EBT.

We have also recommended that if it is implemented by the Federal Reserve Board, that it be delayed for 3 years, so we can have the kind of cost estimates and the kinds of research that we need to see how much this is going to cost. As of now, the Federal Reserve Board has delayed twice their meeting on this issue, and it still has not been decided.

Senator LUGAR. Is this inhibiting the growth of EBT to other States?

Ms. HAAS. I hope not, because we still do not know the exact figures on Regulation E. I am very encouraged by my meetings with States. Yesterday, I met with a group of southeastern United States welfare commissioners, and they were uniformly enthusiastic, and we have agreed for a Federal–State partnership to make sure that EBT happens.

Senator LUGAR. What is the future of the match that comes to States for fighting fraud? It has been 75 percent. There has been a recommendation to go to 50. It would appear that it is important for States to be enlisted, as we have heard from the Attorney General of Illinois. But what information can you give us about that situation?

Ms. HAAS. There is no question that fighting fraud is a Federal–State partnership, and the 75 percent administrative funds match that was originally in the Food Stamp bill was considered as a start-up fund. It went in the Budget Reconciliation Act to 50 percent. I believe that with that amount of money and the leadership of this administration in fighting fraud, we can get that job done. Also, we have at hand today more sophisticated computer technology that can help us deter and prevent fraud.

Senator LUGAR. With regard to the States, from time to time USDA has urged States to develop tax recovery systems. As a matter of fact, almost each year the States are assessed amounts of money that they either ought to return or reform. I am told that, historically, only about $8 million has been collected in 1993 under the 21 States involved. What is the future of that situation under your administration? Leaving aside the past, in which huge amounts of money apparently were being lost, but almost none collected, what will you be doing about this?

Ms. HAAS. We are going to be aggressive in that area, as well. I think it offers an opportunity to recover money that is really important to recover. The tax recovery program started out with a pilot in two States, and then it went to nine States. We are looking at this as one of the important ways to build on our fraud prevention program. It is now in 21 States, so it is something that we have been increasing. It is something that I think is an important component. You cannot fight fraud, because it is so complex, in only one way, and this is one of the parts of our package.

Senator LUGAR. I congratulate you on the administration that you are giving to these programs. I would hope, along the lines of Senator Leahy's request to Attorney General Burris, that you could give interim reports to Members of this committee, even without having a public hearing, as to how this is going. I cannot emphasize out—and you know this well out in the field—that the integrity of the Food Stamp Program and the WIC Program is really at stake. The amounts of criticism from taxpayers on the hustings of these programs is legion.

Now, there are many advocates and human people all over the country support the program. But the amount of press stressing the fraud situation I can only emphasize is devastating, really, in terms of the popular perception. Now, what you have already testified today is not well known to the American people. The electronic transfer system is extremely important as an antifraud device.

The attempts by State and the Federal Government to either retrieve monies or to make certain that fraud is fought are extremely important, and I applaud the Chairman again for having the hearing and this exposure to the American people of what you are doing. But we really need to know more, because we are going to have to answer week in and week out to taxpayers who are deeply concerned about these huge sums of money.

Ms. HAAS. Thank you very much, Senator Lugar. I really appreciate your comments, and let me say you have my commitment that not only are we going to provide you the Congress with that kind of information, because it is very important, but the public needs to know, as well. Because, as you say, the confidence in the programs and the support for these programs that serve so many

millions of needy people depends on how we administer this program. It has got to be tight, it has got to be tough, and it has got to have program integrity. That is why we are being very vigorous.

Before I came to this job, I spent 20 years fighting abuse in the food marketplace. I bring with me, by tradition, a pledge not to tolerate any kind of abuse in a program that serves so many needy people with food. The Food Stamp Program prevents hunger in such a meaningful way, that we cannot allow what goes on in profiteering to continue—or any kinds of problems. And I think in the end that brings more support for the program than embarrassment for the program.

Senator LUGAR. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator Conrad?

Senator CONRAD. Thank you, Mr. Chairman.

Ms. Haas, I found part of your testimony especially interesting and of concern. You indicated that last year USDA's Food and Nutrition Service investigated some 4,600 stores, found violations in over 2,100, and nearly 1,400 were serious enough to warrant disqualification or a civil money penalty. That is roughly one-third of the stores that were investigated.

Is there any reason to believe that these stores were specially targeted, because there was suspicious activity, or is this an indication of what we would find in a broad cross-section?

Mr. HAAS. To begin with, it is a targeted investigation. Because we now have the database and the information, we can target those stores that are most likely to commit offenses. It can also be extrapolated that it is a bigger picture than those 1,000—there is no question about it. The data we have is very important.

I think the issue is again that this is a problem that is at the retail store, which is what Attorney General Burris said earlier. We are not talking about client fraud in this particular problem. But we do have the ability to quickly look at those records, and if you see all of a sudden that in one poor neighborhood there is a level, say, of $10,000 in redemptions for a week, and then all of a sudden there is one store that is posting $80,000 in redemptions, something is funny, if that is a small food store.

So we are able to send in investigators and undercover agents who can go out on the street with food stamps and find out if trafficking really is happening.

Senator CONRAD. What could be your estimate, based on what you know, if we are doing a sampling of all stores, what percentage would be engaged in activities serious enough to warrant disqualification or civil penalties?

Ms. HAAS. Well, what is misleading a little bit about this figure is that there are 207,000 authorized stores today. The majority of those stores are small stores, but the largest volume of food stamp sales occurs in the supermarkets, and in supermarkets, the larger chains, you do not have those instances of problems.

I have not seen any estimates, to answer your question, specifically on how much trafficking fraud is occurring in supermarkets. We only have the known instances of violations.

Senator CONRAD. But your estimate I do, I assume, that it would be substantially below the numbers of those stores investigated. In

other words, it would be much less than 30 percent of the outlets that are engaged in this?

Ms. HAAS. Yes. When you go to the universe, it will be smaller.

Senator CONRAD. Electronic benefits technology holds out real promise for reducing fraud. Can you tell me how much it will cost to institute that program nationwide?

Ms. HAAS. I wish that I could. There are no exact estimates at this time. The pilots are giving us very important information now, and those costs are spread out between the Federal Government, the State government, and there is going to be an input from the food retailer and banking community. So we are now going through those kinds of estimates to see what the bottom line number is, and that is why we are doing pilot projects to begin with.

Senator CONRAD. We do not even have a ball park estimate of what instituting electronic benefits technology would be nationwide?

Ms. HAAS. The important thing is that over time it is less expensive than the paper system. The reason there is not an estimate is because there are so many variables. For example, as Senator Lugar just mentioned earlier about Regulation E, the costs will be significantly more. Another variable is, if the food retailer now has a scanner, or a POS device, in his supermarket, we can use his POS device; that is, if retailers assume some of the cost, the cost can be less.

So there are so many variables now, that if I gave you one number and you change the variables, it would not be a pertinent number. The report that is going to the Vice President at the end of March will have more information in it.

Senator CONRAD. It just seems to me, obviously, before anybody can reach a conclusion of whether it is cost effective to move to electronics benefits technology, we need to know what the cost is, so that we can make some judgment as to whether or not that cost is justified by the underlying problem.

Ms. HAAS. For example, we do know that there are costs today. We spend, for example, in fiscal year 1994, we expect to spend $45 million to print food stamps. We, then again, expect to spend $23 million to count, handle, and burn our food stamps that are used once and shredded. Those costs are eliminated when you go to EBT.

We also know from these tests in Albuquerque that the administrative costs for issuing the food stamps were reduced by 3 to 24 percent, the kinds of costs that the States have for issuance. There are various breakdowns of costs. Again, I would be happy to provide the committee with additional information on the complexities of those cost estimates in the future.

Senator CONRAD. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much.

Senator Grassley?

Senator GRASSLEY. I received a letter from my Iowa Department of Human Services raising concerns that there is no effective method of verifying that a report of a lost benefit card actually represents a loss of benefits. First of all, would you agree with that assessment?

Secondly, because you discussed it in your opening comments that you have a means of verification, do you think what you described as your approach for verification would be effective in meeting the concerns that my State raised?

Ms. HAAS. Now, your State's question was about EBT cards?

Senator GRASSLEY. Yes.

Ms. HAAS. There is verification on this card, because each individual recipient would have a PIN number, and that PIN number would be a private number, just as with ATM cards today. The system parallels the ATM system. So the recipient number would be verified, would go into the computer, and that is important.

The further question, which relates again to Reg E, is how do you deal with the lost card, who is liable for that lost card. That is the concern that the States have. That is, if the States were liable, and cards were lost or stolen, the cost would increase significantly. So that is the discussion and the debate surrounding Regulation E that Senator Lugar referred to earlier.

Senator GRASSLEY. They also make the point, though, that you cannot verify, that just because you have a lost card, it actually represents a loss of benefits. Someone else might use the card.

Ms. HAAS. Well, if you have this card and you swipe it under the machine, that is the only way you can access your benefits. If you lost your card and you go to a supermarket without that card, you cannot get benefits.

Senator GRASSLEY. Mr. Chairman, I am done. Thank you.

Senator MCCONNELL. Mr. Chairman, could I get in one quick question before we have to go to vote?

The CHAIRMAN. Of course you can.

Senator MCCONNELL. Ms. Haas, as you know, there were a couple of provisions in my fraud bill last year that were removed from reconciliation because of the Byrd rule. Frankly, I think we probably share the view that those were pretty important provisions, because they allow information sharing with other law enforcement officials in their efforts to target fraudulent retailers. Will you be asking for this authority in your request this year?

Ms. HAAS. Of course, we have not come to any final decisions on that, but we do think that this kind of information is very, very important, asking for social security numbers——

Senator MCCONNELL. Let me just rephrase the question. Do you support those provisions?

Ms. HAAS. I will give you the same answer. I do value those provisions. How is that? I think that they are very important, and that kind of information is central to our kind of fraud prevention and fraud fighting.

Senator MCCONNELL. You are a very skillful politician.

The CHAIRMAN. Let me add to this, that if at some point you want to elaborate or expand on the answer to Senator McConnell's question, we will be happy to have that for the record. Both of us are very concerned about this issue.

Ms. HAAS. Thank you.

The CHAIRMAN. We have about 3 or 4 minutes left to vote, and I understand that there will be another vote immediately following it, so I will recess, so Members can go and vote.

Ms. Haas, I know that you have another appointment. Thank you very much for being here.

Ms. HAAS. Thank you very much.

The CHAIRMAN. The committee stands in recess.

[Recess.]

The CHAIRMAN. The committee will come to order.

We have just finished a series of votes on the floor. Those of you who are familiar with the buzzers that have been going off will understand that.

We now have Emilio Gonzalez, an analyst with the Office of Technology Assessment; Robert Rasor, Special Agent in Charge, Financial Crimes Division, U.S. Secret Service; and Rick Dodd, Group Manager, External/Internal Crimes and Prevention, U.S. Postal Inspection Service.

Gentlemen, we will start with Mr. Gonzalez.

STATEMENT OF EMILIO GONZALEZ, ANALYST, OFFICE OF TECHNOLOGY ASSESSMENT, UNITED STATES CONGRESS, WASHINGTON, DC.

Mr. GONZALEZ. Mr. Chairman, thank you for the invitation to discuss the opportunities and challenges of using electronic benefits transfer as a method of delivering government benefits. My testimony will be based on OTA's recently completed report entitled "Making Government Work: Electronic Delivery of Federal Services." Before I begin, I would just briefly like to acknowledge my colleagues who worked very hard on this. They are Fred Wood, Jean Smith and Tom Hausken.

With your permission, Mr. Chairman, I will submit my full statement for the record and summarize the key points.

The CHAIRMAN. Thank you. Please do.

Mr. GONZALEZ. Mr. Chairman, as you have recognized in S. 1646, the time for EBT has come. Today, powerful forces at the Federal, State, and local levels are accelerating the movement towards EBT as a method for delivering government benefits. The American public wants better services from the Government at less cost. This is a tough order at a time when demand in growing and budgets are tighter.

For instance, today the number of food stamp recipients is at the all-time high level of 27 million. As demands for services have increased, so have the administrative costs of these programs. Not surprisingly, today we see 37 of the 50 States involved in or planning some form of EBT program.

EBT pilot testing and evaluations indicate that it is proven, reliable, easy to use, and decreasing in cost. EBT has been well received by recipients, retailers, financial institutions, and local program administrators who have tried EBT and prefer it to paper checks or coupons. In fact, during an OTA visit to an EBT pilot site in Wyoming, one recipient interviewed said, "EBT is the best thing that the Government has done for me."

The Food Stamp Program is a good example of the high cost of administering and delivering many government benefit programs. In 1993, the Food Stamp Program delivered about $22 billion worth of benefits. Total administrative costs to the Federal and

State governments for delivering those benefits was over $3 billion. EBT has the potential to streamline the overhead associated with paper-based delivery systems.

Fraud continues to be a serious problem in the Food Stamp Program. The Office of the Inspector General at USDA estimates that as many as 53,000 authorized retailers may be selling non-food items for food stamps, and an additional 3,200 may be exchanging stamps for cash, costing the program another $100 million.

Some of these ripoffs are startling. In one case, OIG investigators were able to exchange $88,000 in food stamp coupons for cash, cocaine, and other non-food items. In another case, OIG investigators identified a wholesale meat company that had lost its authorization to participate in the Food Stamp Program in 1982, but continued to accept an estimated $82.2 million in food stamps from store owners until 1991. According to the OIG, the meat company was discovered only because of an anonymous tip.

EBT has the potential to monitor and audit transactions in an enhanced manner. For example, a recipient's card that is lost or stolen can be flagged and monitored to ensure that those benefits remaining on the card are not accessed.

The transition to an EBT system will be difficult and complex, but it is now possible. To more fully evaluate specific EBT system alternatives, the next logical step would be for Congress to mandate a scaled-up, multiple-program, and regionally based EBT feasibility test.

In conclusion, Congress and the Executive Branch need to act quickly on EBT, if opportunities for integrating services and capturing economies of scale are to be realized. Otherwise, Federal agencies and States will continue to move in the wrong directions, creating potentially incompatible and uncoordinated EBT systems.

The Food Stamp Fraud Reduction Act, S. 1646, is a pro-active and positive step that provides the necessary leadership and oversight to make EBT a success. This bill would mandate that the Department of Agriculture, the Department of the Treasury and the Department of Health and Human Services undertake a large-scale regionally based EBT test.

This test should include and explore the range of technological options, such as smart cards and also hybrid cards which have been completely overlooked in the United States. The feasibility test should have a policy evaluation component that addresses issues related to privacy, security and banking regulations. These critical, factors as identified in "Making Government Work", should be evaluated before committing to any one particular EBT strategy.

The bill recognizes the importance of exploring alternatives, and partnering with States and the private sector, in order to make EBT a cost-effective system solution to deliver government services. The bill also acknowledges that sufficient data are not available at the present time to commit to a national EBT strategy, such as rolling out an on-line system for food stamps.

The bill would mandate that an alternative strategy and EBT system design and implementation be factored in before committing to full-scale implementation. This bill, in short, sets the course for avoiding costly mistakes on EBT implementation.

Thank you for the opportunity to testify, and I will be happy to answer any questions you may have.

The CHAIRMAN. Thank you.

Mr. Gonzalez, in the legislation I have introduced, it does require a national feasibility test of EBT, which I assume from your testimony that you are in favor of.

Also, I am told that about 37 States have initiated some form of EBT for delivery of benefits. This is sort of the good news/bad news. The good news is that 37 have done it, and the bad news is you may have 37 different systems. Am I safe in assuming that a coordinated EBT system for the country would make more sense?

Mr. GONZALEZ. Yes, sir, except that I think that the situation today is one where we really lack sufficient evidence to commit to one particular strategy. Also, certain regions of the country may require a degree of flexibility in system design, so that they can meet their needs with a particular technology, and program mix that suits their needs, such as the case in Wyoming, where they are trying to go to off-line systems to reduce their telecommunications costs.

The CHAIRMAN. Which makes sense, a very rural State, but spread over enormous distance. I hope all would keep in mind that Attorney General Burris said this morning that if somebody finds a way to hack into such an electronic system, the kind of thefts we see now of $1,000, $2,000 or whatever could be dwarfed by somebody dealing with a $20 billion transfer system during the year and able to hack into that.

Mr. GONZALEZ. Mr. Chairman, that is a very good point. I am glad you bring that up, because one thing we have to factor in, in our EBT feasibility test, is to ensure that the EBT processors, that is the companies that will operate the data banks and be involved in actually handling transactions, be companies that have the skill, histories and resources to do this, as such, is done in the commercial debt/credit world.

The CHAIRMAN. Incidentally, Senator Conrad had asked what it would cost to do an EBT system for food stamps nationwide. Do you have any estimate of what that could actually cost?

Mr. GONZALEZ. Yes, sir, we have some definite estimates for you. The OTA report indicates that a magnetic stripe card system for nationwide EBT, including the point of sale terminal equipment, the cards themselves and training that would be required for providers and participants, would cost roughly $160 million. A hybrid system—that is a system that has both off-line and on-line capabilities imbedded in one platform, or a smart card system would cost, including the retrofitting costs of the entire infrastructure of all ATM's in the country, roughly $520 million.

However, I would like to point out that the savings in operating costs of having an off-line or a hybrid approach could be in the neighborhood of $200 million per year compared to on-line.

The CHAIRMAN. Thank you.

Mr. Rasor, we are glad to have you here, and please feel free to go ahead with your testimony.

STATEMENT OF ROBERT H. RASOR, SPECIAL AGENT IN CHARGE, FINANCIAL CRIMES DIVISION, UNITED STATES SECRET SERVICE, WASHINGTON, DC.

Mr. RASOR. Thank you, Mr. Chairman.

We, too, have a statement for the record, and I would just like to highlight some of those remarks.

Mr. Chairman, thank you for the opportunity to address this committee on the subject of Food Stamp Program fraud. I am Robert H. Rasor, and I am representing the United States Secret Service in my capacity as Special Agent in charge of our Financial Crimes Division.

The Secret Service began investigating Food Stamp Program fraud in 1984, in accordance with the Food Stamp Act of 1977, as amended. The United States Secret Service and the United States Department of Agriculture's Office of Inspector General act together to enforce certain criminal laws to help protect the integrity of the system.

The trafficking or counterfeiting of food stamp coupons (FSCs) authorization to participate cards (ATPs) or electronics benefits transfer cards (EBTs) all violate specific criminal statutes under which the Secret Service has purview. We must understand that the Secret Service is not the primary Federal law enforcement agency charged with the enforcement of laws relating to current fraud in the Food Stamp Program. The United States Department of Agriculture's Office of Inspector General is charged with that responsibility.

However, in January of 1984, a memorandum of understanding was signed by the Inspector General of USDA and the Director of the Secret Service. The memorandum of understanding sets forth certain guidelines for which this service and USDA's OIG will conduct universal and joint investigations of the Food Stamp Act of 1977.

It is important to note that the current food stamp investigations compete for resources with many other investigative and protective responsibilities of the Secret Service. Even so, we have investigated large-scale fraud schemes in selected regions, when resources permitted. These cases have resulted in significant arrests and seizures.

One such investigation which I would like to highlight is Operation Stampede, which was conducted in the Chicago metropolitan area. Operation Stampede was a joint Federal and local law enforcement investigative task force comprised of the Secret Service, the Bureau of Alcohol, Tobacco and Firearms, the U.S. Postal Inspection Service, the Chicago Police Department and the Cook County Sheriffs Department.

This task force was in operation from September of 1991 through September of 1992. The task force effected 90 Federal and State arrests, and seized sizable assets and property. Operation Stampede revealed that there is widespread collusion between unscrupulous retail merchants and thieves who are more than willing to exchange food stamp coupons for unauthorized items.

Undercover agents purchased explosive devices, guns, vehicles, drugs and cash with food stamp coupons from brokers and collusive merchants. This task force discovered that just about anything and

everything was for sale in exchange for food stamp coupons. Generally, the rate of exchange for food stamp coupons was 50 cents on the dollar. The task force investigation helped confirm the concept that food stamps are currently becoming an alternate form of currency.

As in all Secret Service investigations, food stamp fraud investigations have three primary initiatives: One, of course, is the arrest and prosecution of the individuals; the second is to identify and recover the proceeds of these criminal activities, if available; and, third, and really important to the discussion here today, is to identify systemic weaknesses and propose remedies to prevent reoccurring criminal activity.

Our investigative experience leads this agency to believe that the Food Stamp Program is vulnerable to fraud. Criminal involvement includes embezzlement, recipient fraud, authorized retailer fraud and trafficking in discounted food stamps by external parties.

I would also like to comment just briefly in regard to the production of food stamps generally. In regard to the production of food stamp coupons, the Secret Service continues in its strong support for production of all U.S. Government obligations within the borders of the United States.

The CHAIRMAN. In case anybody misses the point, you want the food stamps printed here?

Mr. RASOR. Yes, sir, whether ultimately the process is a coupon or whether it is an EBT system.

The CHAIRMAN. So you would be in favor of the legislation that I have introduced, which has actually been co-sponsored by many Members of this committee, to have the food stamp coupons printed here within our borders, and, thus within your jurisdiction?

Mr. RASOR. Absolutely, sir.

The CHAIRMAN. I realize that extends to electronic benefits transfer, too. I understand that is because you want to make sure that if you are going to be charged with enforcement of these laws, you want to make sure the people that are going to be involved are here within the jurisdiction of our laws and of our country.

Mr. RASOR. Exactly on point, Mr. Chairman.

The CHAIRMAN. I could not agree with you more.

Mr. RASOR. This might be somewhat repetitious, but I would like to say this: There are three basic problems that we had in relation to that. If government obligations were produced abroad, the regulatory controls and safeguards in the production of the process may not be subject to direct U.S. Government oversight.

United States law enforcement does not have the authority to investigation theft or misappropriation of U.S. obligations in a foreign country. Prosecution of those who violate U.S. criminal statutes relating to these crimes in some foreign countries may be difficult, if not impossible to attain. Therefore, it is our opinion that if foreign government or law enforcement agency should not be responsible for the integrity of U.S. obligations or systems.

I would like to take just a moment to briefly discuss the new initiative in the area of electronic benefits transfers. The Secret Service is the primary Federal agency charged with the enforcement of Title 18, United States Code, section 29, which is fraud and related activity in connection with access devices, and also Title 18, U.S.C.

section 1030, fraud and related activities in connection with computers. By definition, the EBT system should conform to these statutes for investigative and prosecutorial purposes.

The service has a proven expertise in investigating these crimes relating to credit/debit cards. The EBT card will present similar challenges to investigators faced with this new program. I cannot emphasize enough the importance of providing appropriate security features in the EBT cards and the corresponding safeguards in the computer systems maintaining this program. It is tremendously encouraging to see that your concept requires a full study of these issues prior to implementation of the program.

The Secret Service supports this committee's efforts to develop and electronic benefits transfer system that will provide protection against diversion of recipient benefits. The Secret Service will be helpful in these types of investigations and in identifying system weaknesses to perpetuate fraud.

I will also add, Mr. Chairman, that the EBT system may reduce the administrative cost to the Food Stamp Program, as some research has indicated. In addition, the system should be designed and implemented in a manner that attempts to reduce the potential for abuse by collusive merchants and fraudulent recipients.

In closing, the Secret Service supports initiatives which specifically incorporate measures designed to minimize fraud, while still meeting program goals. Both objectives are not mutually exclusive. To the contrary, incorporation of technological and systemic safeguards results in better resource allocations in both arenas. The potential for food stamp recipients being compromised will continue to be a concern. However, it is in everyone's interest that any resultant legislation include provisions whereby that potential for compromise is minimum.

In short, Mr. Chairman, paralleling your comments in the Congressional Record of November 8, 1993, on this subject, let's fix the system and fix it correctly.

Thank you.

The CHAIRMAN. Thank you very much.

My first experience working with the Secret Service was back years ago as a prosecutor on counterfeit cases, with counterfeit money being spread around Vermont and being involved in a number of other crimes. Since then, of course, I have worked with the Secret Service, both as Chairman of this committee, and a Member of the Judiciary Committee.

I would hope that the Secret Service and the Department of Agriculture will work closely together on this issue of EBT, because you have developed over the years a system of expertise that I think could very, very helpful. I mean every time somebody has found a way to break one of these things, you are the people who have had to go out and figure out how they did it and get them and prosecute them. I often think that is the best way, having had experience where somebody has found a way around something, to learn how to break it up.

So please keep me posted on how that goes. I know the department will work closely with you on it.

Mr. RASOR. Thank you, sir.

The CHAIRMAN. Thank you.

Mr. Dodd, thank you for being here. Again, as with the other witnesses, I apologize for the delay with the votes. Go ahead, sir.

STATEMENT OF RICK D. DODD, GROUP MANAGER, EXTERNAL/INTERNAL CRIMES AND PREVENTION, U.S. POSTAL INSPECTION SERVICE, WASHINGTON, DC.

Mr. DODD. Good afternoon, Mr. Chairman.

I also have a statement and I will read it for the record.

My name is Rick D. Dodd, and I am the Group Manager at headquarters, responsible for programs and policies of the U.S. Postal Inspection Service, designed to prevent and investigate theft of U.S. mail. I am grateful for the opportunity to provide information concerning the efforts of the Postal Inspection Service to protect U.S. Department of Agriculture food stamp coupons which are entrusted to the U.S. Postal Service for delivery through the mails.

The mission of the U.S. Postal Inspection Service includes audit, security and enforcement responsibilities which directly affect the efficient operation of the Postal Service. As part of our criminal investigations program, postal inspectors service warrants and subpoenas and make arrests for violations of postal offenses.

The Postal Inspection Service, which has existed for more than 200 years, enforces over 100 Federal statutes to keep the mails safe from attack and to protect postal customers, postal employees and also Postal Service assets. Two of those statutes, Title 18, U.S. Code, section 1708, theft of mail by non-postal employees or individuals, and Title 18, U.S. Code, section 1709, theft of mail by postal employees, are primarily used to prosecute individuals for the theft of mail matter, including food stamp coupons.

Over the years, the Postal Inspection Service has worked very closely with food coupon issuing agencies to prevent losses from occurring. We feel that prevention of losses is just as valuable as the arrest and prosecution of the offenders, and a lot more efficient.

We also work very closely with the Department of Agriculture, the U.S. Secret Service and with other State and local agencies to reduce the theft of U.S. Department of Agriculture food coupons from the mails.

Let me first concentrate today on our efforts to prevent mail theft. In September of last year, the Allegan County, Michigan, Department of Social Services requested assistance from the Inspection Service due to food stamp losses they were experiencing. Postal inspectors determined that the losses were not occurring at the point of entry into the mail stream, but, rather, various points along the mail processing system.

Working with the Department of Social Services, we implemented a new service called the registered mail drop shipment service, which has greatly increased the security of food stamps as they travel through the mail. Simply explained, mail is presorted and packaged by ZIP Code. The packages are then sent to the recipient's post office or nearby mail processing facility by registered mail, which is our most secure service. When the package arrives, it is opened and the number of food coupon mailings inside are then verified. The individual food coupon mailings are then distributed to the appropriate letter carrier for delivery.

Allegan County's food coupon losses have been reduced significantly through these preventive measures. Similar work has been done this past year with the State of Ohio. Postal inspectors conducted a joint review with the Ohio State Auditor's Office to analyze the systems and procedures of the food coupon mail distribution system within the State of Ohio. The review resulted in several recommendations to improve security and the distribution of food coupons entering the mail stream.

For our purposes internally, we classify mail theft problems as either external problems or internal problems. External mail thefts are those offenses committed by non-postal outsiders who steal mail. Most external thefts occur during what we call volume mail thefts, which are thefts of quantities of mail during attacks on our postal carriers, postal delivery vehicles, mail collection boxes, mail relay boxes and apartment panel mail boxes.

Food coupons are an attractive item for mail thieves, due to the ease of negotiation. A mail thief can cause undue hardship on numerous customers and the issuing agencies. Therefore, we place a high priority on the prevention and investigation of volume mail thefts. Currently, the Postal Service is victimized by an average of 300 volume mail thefts each month.

Another reason we place a high priority on these investigations is out of concern for the safety of our delivery employees. A recent incident in Greenville, South Carolina, demonstrates the aggressiveness of some mail thieves. A female letter carrier was delivering her route, when an individual jumped into her postal vehicle, held a knife to her throat and said, "I'll cut your throat, if you don't give me all the food stamps." Fortunately, when the carrier explained that she had already delivered all of her food coupons, the individual jumped back out of the vehicle and left the carrier unharmed.

In recent years, we have received an average of 22,000 complaints of food coupon thefts a year. We have no way of determining right now how many of these are actually duplicate claims and not really thefts or losses. It is difficult to quantify the actual number of arrests made for food coupon losses externally, since thieves will generally take anything of obvious value from the mails. However, during the last year, over 5,500 arrests were made for all external mail thefts.

Now, internal mail thefts are those offenses committed by dishonest U.S. Postal Service employees or others who may have direct access to the mail as a result of their employment. Examples of non-postal individuals with mail access are company mail room employees, airline ramp employees, contract drivers and contract post office employees. The overwhelming majority—I would like to repeat—the overwhelming majority of the 750,000 postal employees are dedicated, hard-working and very honest. Like all companies who handle valuables, we must always be on the alert for new employees and for the few employees who abuse that trust.

Postal inspectors routinely analyze reports of food coupon losses to determine where the mail security may be compromised, and then to test the integrity of that mail processing and delivery system. Often these investigations involve the use of what we call

test food coupons supplied to the Inspection Service by the Department of Agriculture.

Lookout galleries installed in many of our post offices are among one of the valuable investigative tools used for conducting internal theft investigations. These lookout galleries, equipped with 2-way mirrors similar to those being used in many retail establishments, allow postal inspectors to visually observe areas of the workroom floor where thefts may be occurring. I would like to mention at this time that lookout galleries are only used for criminal investigations, not for operational or administrative reasons.

The video that we are about to show will highlight how effective lookout galleries have been in helping to identify and apprehend mail thieves. Again, we want to stress that the overwhelming majority of postal employees would not even think of doing what is shown in this video.

In the first investigation you are going to see, postal inspectors arrested a part-time clerk for the theft of nine food coupon letters. The clerk was being tested by inspectors at the time of the theft. The total value of food coupons recovered from that employee's car and residence was $793.

I would like to play the video.

[*A videotape was shown.*]

Mr. DODD. The second investigation that we will show you is a letter carrier who was arrested by postal inspectors for theft of a test letter containing food coupons. This investigation also followed the analysis of local food coupon losses.

[*A videotape was shown.*]

Mr. DODD. The third piece will show the attention a postal employee can expect to receive, if they decide to steal from the mail. It is a little bit longer video. After the employee steals the food stamps, two postal inspectors exit the lookout gallery, approach the employee and arrest him and then recover the evidence.

[*A videotape was shown.*]

Mr. DODD. Mr. Chairman, last year postal inspectors spent almost 21,000 hours investigating internal theft of food stamp coupons. These investigations resulted in 79 arrests. These arrests halted the victimization of hundreds of food coupon recipients.

A recent joint investigation conducted with the U.S. Secret Service and the Bureau of Alcohol, Tobacco and Firearms resulted in the indictment of 88 individuals and two businesses in the Chicago area for fencing stolen food coupons. This is Operation Stampede that was mentioned by Mr. Rasor. Undercover agents purchased cash, drugs, firearms, electronic equipment and automobiles in exchange for food coupons.

At Wichita, Kansas, another internal investigation resulted in the recovery of over $18,000 in stolen food coupons from a postal employee's vehicle. The employee was convicted of theft of mail and possession of cocaine, and was sentenced to 2 years in prison and 3 years probation.

By continuing our work with the mailers of food coupons, we can make the distribution of coupons by mail more secure and further reduce losses. As cited in your proposed legislation (S. 1646), there may be other means of distributing these benefits through

the use of technology. While we are in favor of the most secure and efficient means of providing government services, we encourage thorough study and testing of any new system to ensure that there are not weaknesses that will result in significant exposure to fraud and abuse.

Referring to the comments made by Mr. Burris this morning and Mr. Gonzalez, the Postal Inspection Service is willing to work with your staff and continue working with all the other Federal, State, and local agencies on initiatives to enhance the security of the Food Stamp Program.

Finally, you and this committee are to be commended for focusing attention on this important problem of food stamp coupon theft. As you well know, theft in this program denies those in need, as well as adds to the cost of the program for all Americans.

I will be happy to answer any questions you may have.

The CHAIRMAN. Without going into this part in an open hearing, I am aware of some of the steps that the Postal Service takes, when you are mailing or transferring large amounts of money, large amounts of cash or things like bearer bonds which are the same as cash. That is not the situation here.

I am also wondering do you not face a concern just for the individual mail carrier who is going out in an area. They are not delivering securities back and forth for the Wall Street firms, but they are going down into an area where they are delivering mail, where it is well known they may be carrying food stamps or anything else. Are they not also put at risk?

Mr. DODD. Yes, sir, they are. The current system allows for carriers to go into areas with food stamps in their possession. As we mentioned, in Greenville, South Carolina, those types of situations occur more frequently than we would like to hope they do.

The CHAIRMAN. It is one thing, if a mail carrier has to put up with some of the usual concerns of weather or animals or broken sidewalks and what not, but if they are going to face the possibility of someone pulling a knife or a gun to steal food stamps, that is more than they should be asked to be doing, is it not?

Mr. DODD. Yes, sir. The electronic benefits transfer system that you are proposing in your bill, as long as there are safeguards built into that system, it will certainly help us reduce the violence in the workplace and the safety of our carriers on the street.

I would recommend that that system, if it is incorporated, contain certain safeguard features, such as card activation systems, where if a debit card or an ATM type card is sent out through the mail, that it is sent out as dead plastic or sent out not activated, and maybe there is an 800 number that the recipient would call back to activate that card. As long as we can take the value away from that document going through the mail, then the likelihood of being stolen goes down.

The CHAIRMAN. That is a good point. You want it to be a preset piece of plastic when it is going through the mail. You do not want it to be something really worth something.

Mr. DODD. Right. We worked closely with the credit card industry over the last year or so to reduce their thefts of credit cards in the mail, and I see your electronic benefits transfer system being very similar to that, and card activation, express mail

drop-ship, there are some prevention measures that can be built into the system.

The CHAIRMAN. Thank you.

Does anybody want to add anything else?

Mr. Gonzalez?

Mr. GONZALEZ. If I could just comment on that point. For EBT to be effective, I think that an up-front training program is essential, and one way that you can eliminate delivery of the cards in the mail is, when a recipient obtains his or her card at the original site, be it a food stamp program office or WIC office or whatever, that the training be provided there and the card be physically handed over.

The CHAIRMAN. That is a good point.

Gentlemen, I thank you very, very much. It has been extremely helpful.

I will keep the record open for 24 hours for any further questions by other Senators. Of course, when you get back your testimony, look it over, and if you think of something that you should have added at the time, feel free to do that, because we want the record to be as complete as possible.

Thank you all very much.

[Whereupon, at 12:20 p.m., the committee was adjourned.]

APPENDIX

PREPARED STATEMENTS

The Honorable Ellen Haas

Good morning, Mr. Chairman, and Members of the committee. I am pleased to join you today to discuss a subject of great concern and interest to Secretary Espy and myself—reducing opportunities for fraud and abuse in the Federal nutrition programs.

Recently there have been some highly publicized instances of food stamp trafficking and program losses. We know that despite WIC's success, there are unscrupulous individuals who defraud this program, by manipulating the WIC food instruments.

Fraud and abuse in the U.S. Department of Agriculture's (USDA) food assistance programs will not be tolerated. The health and well-being of millions of low-income people depends upon the food security the Food Stamp Program and WIC provide.

That is why this administration is being so tough with crooks in Los Angeles who try to profit from the misery of others. Our antifraud efforts there are guided by three principles—notification, verification, and investigation. First, through media and flyers, would be criminals are put on notice that what they are considering is a crime. Second, a computer data based system verifies information supplied by every person applying for food stamp assistance to safeguard against multiple issuance. And finally, USDA has teams of investigators in the field identifying instances of trafficking, fraud, and abuse. Five persons have already been arrested for trafficking, and we expect more to follow. We will simply not tolerate these disaster profiteers feeding on the misfortune of those in need.

I would like to begin by focusing on one of the most serious forms of food stamp "fraud and abuse" trafficking. Trafficking occurs when a person approaches a recipient and offers to buy his or her food stamps—usually at a 50 or 60 percent discount. Trafficking also can occur in a grocery store, when a cashier rings up a "food stamp sale" for nonexistent groceries and provides the recipient with cash, again at a discount, in exchange for food coupons. Trafficking is illegal, and it reduces a food stamp household's ability to meet its food needs.

All food stamps are redeemed by retailers who deposit and receive cash for them in the normal course of doing business. Stores that traffic in coupons tend to have unusually high redemption patterns compared to similar stores in their neighborhoods, or redemptions out of line with the sales data they report. When we see these patterns we take a closer look.

Last year, USDA's Food and Nutrition Service (FNS) investigated four stores suspected of food stamp violations. We found violations in 2,147 stores—serious enough to warrant disqualification or a civil money penalty. We found 841 instances of trafficking—where store personnel bought food stamps from FNS undercover agents posing as food stamp recipients. The Office of Inspector General conducts further investigations in instances where major fraud or organized crime is suspected.

Investigators occasionally discover food stamps being redeemed by unauthorized stores. In the past year, under Secretary Espy's leadership, FNS has made significant progress toward putting a stop to this.

Monitoring 207,000 retailers is time-consuming, expensive, and labor intensive. Yet, under the current paper system, there are few short cuts available to us.

We appreciate this Committee's support in sponsoring antifraud legislation in last summer's Omnibus Budget Reconciliation Act and in the Food, Agriculture, Conservation, and Trade Act of 1990. USDA has already begun public hearings to speed the implementation of the Mickey Leland provisions.

Thanks to the recent legislation, firms caught trafficking face civil money penalties of up to $40,000 per investigation. Unauthorized firms who redeem food stamps face fines of $1,000 per violation, plus an amount equal to three times the value of the coupons accepted. Stores that accept loose coupons face fines of $500 for each instance where they are caught, plus an amount of double the value of each coupon illegally accepted. Unlawful users of coupons, authorization cards or access devices (with a value of $5,000 or more) now face long prison terms and up to $250,000 in fines.

USDA vigorously investigates and pursues criminal activity and abuses involving food stamps to the best of its ability. Yet, in spite of our efforts, and legislation aimed at reducing systemic opportunities for food stamp fraud and abuse, there are limits to how much we can accomplish within the current paper system.

Mr. Chairman, Members of the committee. It's time for a change.

Today's hearing focuses attention on an extraordinary opportunity to change the way food stamp benefits (and cash assistance benefits of other programs) are delivered—a chance for us to reinvent the Food Stamp Program.

By far, the most promising solution on the horizon for dealing with trafficking is electronic benefit transfer (EBT) technology.

The Food and Nutrition Service has been testing EBT for food stamp issuance since 1984. We now have evidence that this exciting technology may be able to efficiently, affordably and securely deliver program benefits and improve the quality of service to food stamp recipients—and reduce the stigma associated with paper coupons. With EBT, recipients no longer have to worry about their benefits being lost or stolen. One hundred percent of food stamp benefits go to purchase food—the card eliminates cash change.

Issuing food assistance benefits electronically revolutionizes the way we protect these benefits from fraud and abuse.

Unlike paper coupons, the selling or trading of an EBT debit card is difficult . . . and links the culprits to the crime.

Would-be traffickers must use a store terminal and have the recipient's card and personal identification number in hand in order to determine the value of benefits contained on the card. Then, the terminal must be used to access the benefits. Meanwhile, these transactions are being electronically recorded, identifying the store, the date, the time, the purchase amount, the recipient's card number, and the point-of-sale terminal.

This information is examined and analyzed by computer, quickly identifying suspicious patterns. This information speeds our ability to investigate, prosecute, and remove those stores from the program. Once we turn off their terminals, no further transactions can be made.

Last summer, in Albuquerque, New Mexico, I announced the release of a major evaluation done by USDA on two EBT demonstration sites—one in Albuquerque and the other in Ramsey County, Minnesota. Results showed both sites experienced sizeable reductions in issuance loss and benefit diversion. This study, "The Impacts of State–Initiated EBT Demonstrations on the Food Stamp Program," also contained big news on the potential capacity of EBT to reduce operating costs 3 to 24 percent below that of the paper-based system (start up costs are not included in this calculation).

While in New Mexico, I joined with Governor King in chairing an EBT roundtable which included State employees, clients, banks, retailer associations and other groups closely associated with the Albuquerque demonstration. I learned first hand how enthusiastic each group is about EBT as an issuance system.

Secretary Espy and I have made nationwide EBT a top Department priority. He named me to the EBT Interagency Task Force where I serve as Vice Chair. USDA is well underway in its EBT efforts and currently has six States operating on-line projects: Pennsylvania, Minnesota, New Mexico, Iowa, Maryland, and New Jersey which started yesterday. South Carolina has contracted for the development of a system and will begin operation in the near future. Only Maryland's system is statewide. There is also one off-line EBT demonstration operating in Ohio. Twenty-five to thirty other States are interested in and have begun to plan for EBT to deliver benefits.

Government-wide, we are exploring the use of EBT to provide benefits under a number of other Federal programs (*e.g.*, Aid to Families with Dependent Children,

Social Security, and Supplemental Security Income). FNS is exploring ways to use a smart card for the WIC Program that do not undercut State price-containment efforts.

The range and importance of the issues before us is both exhilarating and challenging as we move ahead in our efforts to better serve the needs of individuals who depend upon USDA's food assistance programs.

In recent years, the misdeeds of a few have cast a long shadow over millions of honest, yet struggling, low-income families and threatened to erode public support for the Food Stamp Program.

EBT holds the key to delivering food assistance benefits (as well as cash assistance benefits from other programs) safely, and with dignity to eligible recipients, while keeping benefits from being a temptation and target.

With your help, this administration intends to provide the necessary leadership to make it possible for all States to initiate EBT by 1996.

Mr. Chairman, Members of the committee, this concludes my remarks. I will be happy to answer any questions which you might have.

Roland W. Burris

The Special Supplemental Food Program For Women, Infants and Children (hereinafter WIC) was created by the Child Nutrition Act of 1966, 42 USCS Section 1786 (See Appendix A)[1]. It is funded by the U.S. Department of Agriculture (hereinafter USDA), and administered by the Food and Nutrition Service (hereinafter FNS). The FNS acts under authority of the USDA in directing disbursement of funds and delegating responsibility to State agencies. The State agencies submit a plan and sign an agreement with FNS for the regional administration of the FNS program. In Illinois, the designated State agency is the Department of Public Health. The State agency then pays the funds and distributes the corresponding case loads to various local agencies who ultimately serve the recipients.

Last fiscal year, the WIC program in Illinois received more than $165,000,000.00 from USDA to serve 249,000 clients. The laudable goal of this program is to evaluate the nutritional needs of economically disadvantaged pregnant women, infants and children, and provide them with the necessary food stuffs to keep their families healthy. The necessity of the WIC program is greater now than ever in its 28-year existence, because our society is during an epidemic of infant illness. From low birth weight babies, to infants born addicted to drugs or alcohol, WIC can help significantly reduce the incidence and impact of these tragedies.

Here is how the program is intended to work. The process begins when a pregnant mother enters a clinic and is interviewed by a nutritionist. After the interview, an analysis of the cue is done; the nutritionist then recommends a plan, and food instruments are dispensed for a one to three month period. Next, the client goes to a local WIC vendor, shows proper identification, signs and tenders the food instruments, and receives the appropriate food stuffs in accordance with the nutritional plan. Next the vendor fills out the food instruments in the correct amount, deposits the food instruments in his bank account and is paid by USDA (See USDA WIC Regulations, Appendix B.)

In terms of dollars, the vendors in the WIC program present the greatest potential risk of fraud. In Illinois there are approximately 1,400 vendors to serve the 249,000 WIC clients. These vendors are essentially retail grocery stores and run the gamut from a national food chain mega-stores to a two-aisle, one-cash register operation.

The vendor fraud which we have uncovered in Illinois has involved various aspects of the program. Under one scheme, a licensed WIC vendor would buy food instruments from the recipients for about 10 to 15 cents on the dollar and then turn in the coupons to USDA for full value. Another scenario featured an unlicensed store buying WIC food instruments from recipients, then selling or laundering them through a licensed vendor who cubed in the coupons with USDA for the maximum price. Also uncovered were licensed vendors who were laundering food instruments between stores to mask the point of sale, as well as breaking down larger transactions into a series of smaller ones.

Next, we address the most outrageous of all fraud in the WIC program, that which is committed by health clinic employees. The very individuals whose duty it is to save our children are exploiting them, often on a grand scale. The clinic employee can commit fraud in the following ways: by approving someone who does not qualify and making a share of the food coupons; by taking unclaimed food instru-

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[1] Appendices A, B, C, and D are retained in Committee files.

ments from valid recipients; by simply making up files on people who don't exist and claiming the WIC food instruments.

In December of 1993, the office of the Illinois Attorney General, in conjunction with the Illinois Department of Public Health and the Illinois State Police, sent a powerful message to crooked clients, vendors and clinic employees in the WIC and Food Stamp programs. The message conveyed was that fraud uncovered within the program will be prosecuted to the fullest extent of the criminal statutes. An 18-month investigation resulted in the indictment of 19 individuals and 12 corporations on charges ranging from official misconduct for clinic employees, to State benefits fraud and money laundering for vendors. The investigation target stores based upon a number of factors including the ratio of WIC sales to total sales, Illinois Department of Public Health audits, hotline referrals and informant tips. After determining the "hot spots" to be targeted, undercover agents of the Illinois State Police were sent in to the vendors posing as WIC recipients willing to sell food instruments. These vendors, including store owners and managers, purchased not only WIC food instruments but also food stamps and unstamped cigarettes.

These investigations uncovered an intricate underground network of stores trafficking in WIC, food stamps, unstamped cigarettes and even phony identification documents.

Some of the most egregious cases involved two-aisle, one-cash register, so called "Mom and Pop" stores redeeming 10s or even 100s of dollars in WIC food instruments in a single month. Other cases involved undercover WIC sales at one store which were then redeemed by two or three other stores in various parts of the city of Chicago.

The clinic employees were investigated after receiving tips from individuals and detecting inconsistencies in various recipient files. The Illinois Department of Public Health audit system detected files created by clinic employees for ineligible or non-existent participants. These food instruments were then taken by the clinic employee to various unscrupulous vendors who would provide cash for coupons.

The arrests of all indicted were effected at the same time so that members of the network could not notify one another. The "sweep" tactic proved very effective as all defendants were in custody shortly after indictment. Of particular note was one defendant who, after engaging in numerous WIC buys, was arrested after allegedly purchasing a truckload of unstamped cigarettes. Recovered from the defendant's premises at the time of arrest was a Tec 9-millimeter semi-automatic assault type weapon.

Another vendor threatened to "blow the head off" of an undercover agent after transacting a WIC buy. One particular vendor who was arrested proceeded to instruct the undercover agent on how to steal from the WIC program including how to prepare and negotiate fraudulent WIC coupons. Several undercover officers were solicited to take part in phoney marriages in order to establish United States citizenship. One undercover officer was asked to take part in the use of illegal drugs (cocaine) during a WIC buy. From all of these events it is clear the defendants were engaged in a significant criminal enterprise.

The defendants in question were charged with a range of crimes. Vendor charges included: State benefits fraud, theft, forgery, conspiracy, money laundering, unlawful use of foods stamps and possession of unstamped cigarettes. Charges against clinic employees included: official misconduct, bribery, computer fraud and State benefits fraud. However, no specific Illinois statute exists for prosecutions under the WIC program. In response, we have drafted proposed legislation to specifically combat the seemingly rampant fraud within this program. The intent of this proposed legislation is as follows:

> Because of the pervasive nature of Fraud in the Special Supplemental Food Program for Woman, Infants and Children (hereinafter WIC), its negative effect on the People of the State of Illinois and those individuals who need WIC benefits, the general assembly declares it to be public policy that WIC benefits fraud be identified and dealt with swiftly and appropriately, considering the onerous nature of the crime. (See Appendix C).

The proposed legislation is divided into five sections:

1) Legislative intent;
2) Penalty for unauthorized use of WIC food instruments;
3) Administrative malfeasance;
4) Unauthorized possession of identification documents;
5) Classification of violations;

The proposed legislation intended to quell the problems and areas of concern perceived in WIC resulted from our experience in indicting the cases herein discussed

above. The statute was drafted to be all encompassing with particular attention paid to the violation classification section. (See Appendix C.)

A Federal statute for criminal prosecution of vendor fraud in the WIC program does exist and can be found at 42 USCS Section 1760 (g). This statute reads in pertinent part,

> [w] hoever embezzles, willfully misapplies, steals, or obtains by fraud any funds, assets, or property that are the subject of a grant or other form of assistance under this Act or the Child Nutrition Act of 1966 [42 USCS, section 1771 *et seq.*], whether received directly or indirectly from the United States Department of Agriculture, or whoever receives, conceals, or retains such funds, assets, or property to personal use or gain, knowing such funds, assets, or property have been embezzled, willfully misapplied, stolen, or obtained by fraud shall, if such funds, assets, or property are of the value of $100 or more, be fined not more than $10,000 or imprisoned not more than 5 years, or both, or, if such funds, assets, or property are of a value of less than $100, shall be fined not more than $1,000 or imprisoned for not more than 1 year, or both.
>
> (See Appendix D).

The Federal statute pertaining to criminal penalties for WIC vendor fraud should be expanded. The legislation should not only seek to identify the requisite criminal conduct with greater specificity, but also include language addressing the clinic employee. Further, the criminal violations section should be divided into classes based upon the conduct and amount of money in question. In light of the conspiracies uncovered during our investigation, the Federal Government should draft and quickly pass legislation to reign in clinic employee and vendor fraud in the WIC program. The legislation we propose could be a model for the Federal Government, and other States to use in establishing their own statutory weaponry to combat WIC fraud. Another possibility may be to use the Federal narcotics profit forfeiture statute as a guideline for a form of "zero tolerance" in the WIC and Food Stamp programs. This legislation would require crooked clinic employees and vendors to return the fruits of their illegal labors. Also the Federal criminal RICO statutes may be successfully utilized to stem the tide of theft. One thing is certain, decisive action establishing severe penalties is necessary to stop the WIC vendors and clinic employees from committing these acts.

The crimes ferreted out by our investigation are only the tip of the iceberg with many more indictments to come. This conduct is allegedly so widespread in some areas that one official described it as a "culture of fraud," endemic to the system. The real tragedy is these WIC vendors and clinic employees steal from those who can least afford it. WIC fraud estimates are difficult to ascertain, however with billions of dollars involved in the WIC program, eliminating these crimes could potentially free up millions of dollars to aid the poorest of the poor. With the average infant served by WIC receiving $86.00 dollars per month, and the average woman or child served by WIC receiving $44.00 dollars per month; the potential number of additional clients who could be served by this program, without the commitment of new money, is astronomical. For each million dollars in fraud eliminated, an additional 11,628 infants or 22,720 women or children could be funded under WIC for 1 month. As the funding disbursement network indicates, WIC is essentially a community program, administered by local agencies. This situation puts local authorities in a unique position to identify, investigate and prosecute WIC fraud, in all its forms.

Any funding assistance the Federal Government could render on these prosecutions is money well spent, for each dollar of assistance we receive would pay great dividends in fraud prevention. As our Federal Government faces mounting pressures for fiscal responsibility; we have before us a prime opportunity to eliminate waste. Both the Federal Government and the States must work together to ensure that the intended WIC recipients receive the full value of each program dollar. New legislation which includes significant penalties, possibly modeled after our proposal, must be swiftly enacted and enforced on both a Federal and State level. A message must be sent to quell the theft, the "culture of fraud" must be extinguished. Tens or perhaps even hundreds of thousands of disadvantaged pregnant women, infants and children are counting on our efforts to rid WIC of this malignancy. We must not let them down.

Emilio Gonzalez

Mr. CHAIRMAN AND MEMBERS: Thank you for the opportunity to discuss Electronic Benefits Transfer (EBT) as a method of delivering Federal Government benefits. I will base my remarks primarily on the OTA report, *Making Government Work: Electronic Delivery of Federal Services*. I do wish to acknowledge my colleagues who worked very hard on this report—Fred B. Wood (project director), Jean Smith, and Tom Hausken. We hope to continue working with the committee as information technology issues associated with the delivery of government services continue to arise.

Several near-term opportunities exist for information technology to improve the delivery of government services, as well as the overall performance of the Federal Government. Using EBT to deliver Federal Government benefits is such a opportunity.

Powerful forces at the Federal, State, and local levels are accelerating the movement toward EBT as a method of delivering government benefits. The American public wants better services from government at less cost. This is a tough order at a time when demand is growing and budgets are tighter. Today, the number of Americans receiving food stamps is at an all-time high of 27.2 million. Recipients of Social Security benefits number about 46 million. It is estimated that over 14 million individuals receive Aid to Families With Dependent Children (AFDC) benefits, and 6.2 million individuals receive assistance from the Special Supplemental Food Program for Women, Infants and Children, better known as the WIC Program. As demands have increased, the cost of administering the programs has also gone up.

The Food Stamp Program is a good example of the high cost of administering many government benefit programs. The total dollar amount of food stamps delivered during 1993 was about $22 billion. The total administrative costs (State and Federal) for delivering those benefits was $3.15 billion. Of this total, the Federal cost was about $1.75 billion ($1.688 billion appropriated for program administration and $60 million for Federal staffing requirements), and State costs amounted to $1.4 billion. EBT has the potential to streamline the administrative overhead associated with paper-based delivery systems.

A major factor affecting administrative costs is the process of issuing and redeeming government benefits. The Food Stamp Program is a prime example of why paper-based benefit programs are so costly to operate. In today's paper-based delivery system, the Food Stamp Program prints over 2.5 billion paper coupons annually at a cost of $30 million to $40 million. By 1995, the annual cost of printing food stamp coupons will escalate to roughly $70 million. These coupons must be printed, stored, and shipped under tight (cash equivalent) security. The coupons are then issued to recipients who, in turn, present them to approved retail stores. Retailers must store, count, and present the coupons to their financial institution for credit. The financial institution must then count the coupons, verify the totals, credit the merchant, and submit the coupons and paperwork to the Federal Reserve Bank. The Federal Reserve Bank confirms the totals, checks for counterfeit coupons, destroys the coupons, credits the sending institution's account, and debits the U.S. Treasury account. Meanwhile, the Food and Nutrition Service must monitor and reconcile the flow of paper and benefits through numerous reports provided by participating retailers, State agencies, and the Federal Reserve Bank.

The current paper-based system of coupons and checks for issuing benefits is cumbersome, expensive to administer, and susceptible to waste, fraud, and abuse. EBT has the potential to improve program integrity and efficiency in delivering government benefits.

EBT merits consideration for addressing some of the problems that have been encountered in delivering government benefits. EBT eliminates the need to issue paper coupons and checks, as well as the distribution, processing, collection, sorting, and much of the accounting work associated with benefit issuance and redemption. Eliminating paper-processing redundancies and inefficiencies could streamline the issuance and redemption process, and may improve the overall cost effectiveness of delivering may government benefits. Attaining net savings in administrative costs will not happen simply by using EBT. Reductions in the current administrative overhead associated with the delivery of benefits will also be required, and EBT can also help achieve this.

After a decade of testing and pilot projects, EBT has demonstrated that it could be a viable alternative to the current paper-based system for delivering food stamps and other Federal benefits. An important component of a plan to improve the quality, integrity, and cost effectiveness of Federal and State benefit programs is the ability to reduce the levels of waste, fraud, and abuse that afflict many benefit pro-

grams. EBT is a viable option for issuing benefits in an environment that could assist in reducing waste, fraud, and abuse.

What is EBT?

Electronic benefits transfer (EBT) is the term used to describe the use of automated Financial transaction processing and card access technologies to deliver Federal and State benefits to recipients electronically. Recipients can access their benefits by using a magnetic stripe card (like those provided by commercial banks and credit card companies) to transact with Automated Teller Machines (ATMs) and Point of Sale (POS) terminals located in retail locations.

An EBT system can be designed to accept magnetic stripe cards ad/or smart cards—a card the size of a credit card with an embedded integrated circuit that contains memory and performs processing functions. The fundamental difference between a magnetic stripe card and a smart card is the way in which information is stored and transactions are processed.

In a on-line system, using the magnetic stripe card, an electronic message is sent to a processor that verifies that there are sufficient funds in the account and returns a on-line authorization message to the inquirer (that is, the A7M or POS device). The United States already has a commercial infrastructure in place for supporting on-line transactions. Retailers are investing in on-line POS terminals (there are an estimated 300,000 POS terminals deployed nationwide) for commercial debit/credit transactions. These systems, with minor modifications, also can accommodate EBT transactions.

In an off-line or smart card system,the recipient's account balance is maintained on the card itself. Verification, monitoring of benefits, and deduction of purchased amounts take place without the need for an on-line connection to a processor. Because an off-line transaction requires no immediate telecommunications link to a host computer for verifying the account and checking the balance, annual operating costs are lower compared to a on-line transaction. Drawbacks to using smart cards at this time include: 1) the high cost of the cards (the cost will drop with time and when purchased in bulk); 2) the lack of compatibility between off-line technology and the existing commercial infrastructure (OTA estimates that a $270 million investment would cover the cost of retrofitting ATMs and converting existing POS devices to accept both magnetic stripe and smart cards); 3) the lack of uniform technical standards for programming card-based computer chips; and 4) the continued, although reduced, need for some form of on-line communication with the EBT processor.

A decade of EBT pilot tests and evaluations indicate that it is proven, reliable, easy to use, and decreasing in cost. EBT has been well received by recipients, retailers, financial institutions, and local program administrators who have tried EBT and prefer it to paper checks or coupons. Specifically, retailers and Financial institutions prefer EBT because it is an extension of Electronic Funds Transfer (EFT) and imposes lower administrative costs in processing transactions than paper coupons and/or checks. In recent food stamp pilot tests conducted in Bernalillo County, New Mexico, and in Ramsey County, Minnesota, the impact of EBT in terms of reducing operating costs for retailers and financial institutions was noteworthy. The New Mexico test showed that retailers' cost of participating in the Food Stamp Program (per $1,000 of benefits redeemed) declined from $17.83 to $13.85 (per case month) using EBT. In Ramsey County, retailer participation costs dropped from $46.05 to $39.96 (per case month). Both pilot tests also exhibited cost savings for participating financial institutions. In New Mexico, participation costs (per $1,000 of benefits redeemed/per case month) dropped from $3.29 to $0.10. In Ramsey County, the improvements were dramatic, as financial institutions went from a participation cost of $5.52 (per $1,000 of benefits redeemed/per case month) to a profit of $0.11 using EBT.

Recipients also benefit from EBT through a added sense of dignity and security. In addition, their participation costs are typically lower than in the coupon system because they tend to spend less time obtaining their benefits. During a OTA visit to an EBT pilot site in Wyoming, one recipient interviewed said that the EBT program was "the best thing that the Government has done for me."

EBT and Fraud Reduction

Waste, fraud, overpayments, and participant misuse of benefits are considered to be major problems in the Food Stamp Program. Although not a panacea, EBT has the potential to reduce fraud and minimize the diversion of benefits. Fraud and overpayments in the Food Stamp Program are estimated to be about $1 billion per year. A 1992 Majority Staff Report to the Committee on Government Operations noted that the Food Stamp Program "is losing at least $1 billion annually because

the Department [FNS] and the States that administer the program have not prevented cheats from abusing it. The total losses accumulated between 1988 to 1992 equal about $4 billion." In fact, improving the integrity of the Food Stamp Program was one of the major motivations in the early exploration of EBT for delivering food stamps.

Fraud continues to be a serious problem in the Food Stamp Program. During 1993, the Compliance Branch of the Food and Nutrition Service investigated 4,644 authorized retailers for possible violations (this figure does not include retailers investigated by the Office of the Inspector General (OIG) at the Department of Agriculture (USDA)). The Compliance Branch concluded that 1,387 of the retailers inspected had violated regulations, and sanctioned 841 for trafficking activities during that year. In comparison, 2,825 retailers were inspected for regulation violations in 1988, and 215 were sanctioned for trafficking. This trend suggests an increase in food stamp trafficking activity, although comprehensive data do not exist.

The OIG estimates that "as many as 53,000 authorized retailers may be selling nonfood items for food stamps, and an additional 3,200 may be exchanging food stamps for cash, costing the program another $100 million." Some of these "ripoffs" are startling. For example, in one case, OIG investigators were able to exchange $88,000 in food stamps for cash, cocaine, and other nonfood items. In another case, OIG investigators identified a wholesale meat company that had lost its authorization to accept food stamps in 1982, but continued to accept an estimated $82.2 million in food stamps from store owners until 1991. According to the OIG, "the meat company was discovered only because of an anonymous tip."

Food stamp coupons are a prime target for fraudulent activities such as counterfeiting, bartering, and diversion. The coupons are a form of paper currency (albeit restricted) that can be counterfeited. The Food and Nutrition Service estimates that between 1986 and 1992, about $1.2 million in counterfeit coupons were discovered. The total number and dollar value of counterfeit coupons are unknown.

Individuals also can exchange their food stamp coupons for cash and/or other items (*e.g.*, guns and illegal drugs), usually by accepting a discount on the face value of the coupon(s). By eliminating coupons altogether, EBT helps deter "bartering" because the amount of benefits remaining on a card cannot be determined without a POS device. The use of EBT in the Food Stamp Program also eliminates the diversion of benefits when retailers provide cash change (up to $0.99) to recipients, which allows recipients to use the cash for purposes other than those intended by the program.

In addition to eliminating the diversion of benefits and complicating the exchange of coupons for cash and/or other items, EBT also makes it easier to monitor and audit transactions. For example, if a recipient reports a card lost or stolen, the account can be flagged and monitored to ensure that the remaining benefits are not accessed. Thus, an individual who steals or finds an EBT card cannot access the benefits available without entering the correct PIN within the first three attempts (after the third try the card can be disabled).

It is possible to implement EBT in a manner that will help consolidate and integrate front-end eligibility determination for many benefit programs. A national EBT system that incorporates data necessary for eligibility determination could, among other things, reduce error rates (such as overpayments to eligible recipients and payments to ineligible recipients), which currently average 10.69 percent for the FSP and 4 percent of total Supplemental Security Income benefits (roughly $1 billion per year).

Managing the Transition to EBT

The transition to a nationwide EBT system will be difficult and complex, but it is now possible. A national EBT system is technically feasible and offers significant potential advantages to recipients, providers, funding agencies, and, ultimately, the U.S. taxpayer. Despite this optimistic outlook, however, there is still insufficient information to assure cost-effective EBT or to make technical decisions on nationwide EBT implementation—such as a national rollout of EBT for food stamps using a magnetic stripe card. Although Federally supported pilot tests have assessed the use of magnetic stripe cards, only limited attention has been paid to smart cards, and hybrid cards (that combine the features of both magnetic stripe and smart cards) have been completely ignored.

An EBT system that is properly designed, tested, and implemented may prove to be a cost-effective solution for delivering social services. On the other hand, deploying an EBT system that fails to capture economies of scale and scope because of uncoordinated activities at the Federal and State levels likely will result in inefficiencies.

In a recent decision, the Food and Nutrition Service indicated that they would not participate in the funding of a pilot study for the Delaware Card–One Project. This proposed EBT pilot would test the use of optical memory storage cards for delivering food stamps and other government benefits. Optical memory cards can store much more data than magnetic stripe or even smart cards, but do not have independent processing capability (this is provided, instead, via off-line readers or on-line computers). The objective of the Delaware Card–One initiative is to test the feasibility of using one card to provide access to a range of government benefits, such as: food stamps, WIC, AFDC, General Assistance, Medicaid, immunization data, and medical history information. This type of pilot project merits consideration. Other similar initiatives using smart cards are under way in Wyoming and Ohio.

In Wyoming, the State (with the support of the USDA) developed the Wyocard and successfully applied smart card technology for delivering WIC benefits to residents in Casper. Today, the Wyocard is on the verge of becoming the Nation's first EBT project for delivering food stamps and WIC. The Wyocard rollout will serve 5,000 food stamp and 2,100 WIC recipients throughout seven counties in the State. Wyocard administrators believe that the use of off-line EBT will, in the long run, produce substantial savings by minimizing telecommunications costs.

As a result of the positive experience with the Wyocard, the Western Governors Association is supporting a feasibility test of the "Health Passport." The aim of the "Health Passport" is to develop and implement a portable and secure means for citizens in Wyoming, North Dakota, Montana, Idaho, and Nevada to take their benefit and medical information from one service provider to another. Among the services and benefits that the "Health Passport" will explore for electronic delivery are: Indian Health Services, Medicaid, prenatal care, immunization, Head–Start, and children with special needs.

To more fully evaluate specific EBT system alternatives, the next logical step would be for Congress to mandate a scaled-up, multiple-program, and regionally based EBT feasibility test. Congress could conduct oversight and direct the Office of Management and Budget, the Department of the Treasury, the Department of Agriculture and relevant agencies to develop plans for such a test. At present there are no Federal plans to conduct a feasibility test of a hybrid system. Congress could, if necessary, reprogram the funding of the Department of Health and Human Services and Food and Nutrition Service to ensure that both agencies include hybrid technology in further EBT pilot tests.

If Congress were to mandate an EBT feasibility test, it should be well designed and provide results within 12 to 18 months. A feasibility test should address seven key issues: 1) the advantages and disadvantages of a centralized v. decentralized, on-line v. off-line, and standardized v. free-form EBT system; 2) the organizational changes that would be required at the Federal, State, and local levels in order to develop and operate a nationwide EBT system, including the optimal program and agency mix; 3) the cost of developing and operating a nationwide EBT system and possible cost-sharing strategies; 4) the degree to which a nationwide EBT system could be integrated with existing commercial POS/ATM networks; 5) the likely impact of a nationwide EBT system on recipients and providers; 6) the likely impact of a nationwide EBT system on the banking, retail, and financial industries; and 7) legislative and regulatory issues that must be addressed to implement a nationwide EBT system.

In parallel with a large-scale EBT test, Congress and the administration could begin to address a number of policy issues that require attention and oversight in order to accelerate the development and implementation of a nationwide EBT system. Among the key policy considerations are: 1) selecting an appropriate mix of Federal programs to be delivered electronically; 2) revising and updating policies and regulations relevant to EBT; 3) selecting a national EBT alternative that optimizes cooperation and coordination at the Federal and State levels; and 4) providing a framework to coordinate legislative and executive branch leadership.

Selecting a Program Mix for EBT Delivery

EBT pilot tests and evaluation studies indicate that implementing a national EBT system for a single benefit program would be less cost effective than one that integrated multiple programs. Decisions are needed on what benefit programs should be combined for electronic delivery using the same card, terminals, and networks. Food stamps and AFDC, for example, are good candidates for combined delivery, given that there is significant overlap among recipients and both programs are State administered. A multiple-program EBT approach is important because it captures economies of scale and scope and is likely to have the support of State governments. Multiple-program EBT would spread costs over more programs, thereby improving the cost effectiveness for each individual program.

Once an appropriate program mix is identified, Congress could enact legislation that mandates the creation and use of a multiprogram Federal Social Service Card or the equivalent.

Revising Federal Policies Relevant to a National EBT System

To accelerate the development and implementation of a nationwide EBT system, Congress and the administration could start now to identify policies and regulations that may need to be revised. For instance, program-specific rules and regulations should be evaluated and revised to streamline the delivery process. Federal laws that protect the privacy and security of information about participants should be reviewed and revised as needed. Federal and State banking laws should be re-examined in the context of EBT because a national EBT system must operate within the existing or revised banking and financial policy framework.

Selecting a National EBT System Alternative

A basic issue in EBT development and implementation is whether Federal agencies should take the lead in designing an EBT system, presumably working with the States, or should essentially leave system design up to individual States. A Federally initiated system may prove to be the most advantageous approach for two reasons. First, most States are pressed for financial resources, and a Federal lead on EBT design should reduce EBT planning and design costs for the States individually and the Nation as a whole. Second, a Federally initiated design presumably would place a premium on a standardized and interoperable system that maximizes opportunities for economies of scale and scope in EBT procurement and service delivery.

Current EBT pilot programs using multiple, decentralized designs. This is entirely appropriate at the pilot test and demonstration stages. Yet, if these designs are extended to the pre-operational stages, the effect of a multiple, decentralized design strategy would be to create several separate and segregated EBT systems. If the U.S. Government decided to implement a nationwide, multiprogram EBT system, then a decentralized approach with Federal design standards would be better strategy. Among other things, this approach would: 1) encourage EBT system developers to standardize their equipment and networks; 2) accommodate States that prefer regional EBT systems; 3) build on the commercial infrastructure for POS and ATM transactions; and 4) provide the necessary economies of scale to make EBT cost effective.

Providing Coordinated Legislative/Executive Branch Leadership on EBT

Leadership from Congress and the administration is key to EBT success. Today, 37 of the 50 States are involved in or planning an EBT project. In addition to the flurry of EBT activity taking place at the State level, the administration's "National Performance Review (NPR)" and "National Information Infrastructure (NII)" initiatives provide important vision and general direction, but neither offers detailed policy guidance and actions that are needed to make the transition to EBT cost effective.

In conclusion, Congress and the executive branch need to act quickly on EBT if opportunities for integrating services and capturing economies of scale are to be realized; otherwise, Federal agencies and States will continue to move in their own directions creating potentially incompatible and uncoordinated EBT systems. The Food Stamp Fraud Reduction Act of 1993 (S. 1646) is a proactive and positive step that provides the necessary leadership and oversight to make EBT a success. This bill would mandate that the Department of Agriculture, the Department of the Treasury, and the Department of Health and Human Services undertake a large-scale, regionally based, EBT test to more fully evaluate technological options and other critical factors (as identified in *Making Government Work*) before committing to any one particular EBT strategy. The bill recognizes the importance of exploring alternatives for partnering with States and the private sector in order to make EBT a cost-effective system solution to government service delivery. The bill acknowledges that sufficient data are not available at the present time to commit to a national EBT strategy (such as rolling out an on-line system for food stamp delivery). The bill would mandate that alternative strategies in EBT testing, system design, and implementation be factored in before committing to full scale implementation. This bill sets a course for avoiding costly mistakes on EBT implementation.

Thank you for the opportunity to testify. I will be happy to answer any questions you may have.

Robert H. Rasor

Mr. Chairman, thank you for the opportunity to address this committee on the subject of Food Stamp Program fraud. My name is Robert H. Rasor, and I am representing the United States Secret Service in my capacity as the Special Agent in Charge of our Financial Crimes Division.

The Secret Service began investigating Food Stamp Program fraud in 1984 in accordance with the Food Stamp Act of 1977, as amended in Title 7, USC 2011–2032. The United States Department of Agriculture, Office of Inspector General and the United States Secret Service enforce this act and other criminal laws pertaining to the Food Stamp Program in order to maintain the integrity of this program.

The Secret Service authority to investigate fraud in the Food Stamp Program and the counterfeiting of food stamp coupons is derived from Title 18, USC Section 3056. In part, the section charges the Secret Service, as a law enforcement bureau in the Department of the Treasury, with the enforcement of criminal laws relating to obligations and securities of the United States. Food stamp coupons are defined as an "obligation or other security" of the United States under Title 18, USC section 8 (obligation or other security of the United States defined).

The trafficking or counterfeiting of food stamp coupons (FSCs), authorization to participate cards (ATPs), or electronic benefit transfer cards (EBTs) all violate specific criminal statutes under Secret Service purview. These statutes include, but are not limited to, the following:

Chapter 25, Counterfeiting and Forgery, of Title 18, USC:

Section 471 (Obligations and Securities of the United States);
Section 472 (Uttering Counterfeit Obligations or Securities);
Section 473 (Dealing in Counterfeit Obligations or Securities); as they relate to the counterfeiting of FSCs.

Chapter 47, Fraud and False Statements, of Title 18, USC:

Section 1029 (Fraud and Related Activity in Connection with Access Devices), as it relates to EBTs.

Additionally, the following Federal criminal statutes are applicable to other more general fraud related activity in the Food Stamp Program:

Chapter 31, Embezzlement and Theft, of Title 18, USC Section 641 (Public Money or Records) as it relates to the embezzlement or theft of government money/food stamp coupons;

Chapter 47, Fraud and False Statements, of Title 18, USC Section 1001 (statement and entries generally) as it relates to authorized merchants and Food Stamp Program administrators falsifying statements to defraud the program;

Chapter 47, Fraud and False Statements, of Title 18 USC section 1030 (Fraud and Related Activity in Connection with Computers); applies to intrusions on the computer systems that regulate the Food Stamp Program.

In addition to the above criminal statutes:

Chapter 46, Forfeiture, of Title 18, USC Section 981 (Civil Forfeiture) and

Chapter 95, Racketeering, of Title 18, USC Section 1956 (Laundering of Monetary Instruments); provide the Secret Service the authority to seize and forfeit assets relative to Food Stamp Program fraud investigations.

The Secret Service is not the primary Federal law enforcement agency charged with the enforcement of laws relating to Food Stamp Program fraud. The United States Department of Agriculture, Office of Inspector General (USDA/OIG) is charged with that responsibility. In January 1984, a memorandum of understanding was signed by the Inspector General, USDA, and the Director of the Secret Service. This Memorandum of Understanding (MOU) sets forth guidelines for which this service and USDA/OIG will conduct unilateral and joint investigations of the Food Stamp Act of 1977, as amended. The Secret Service will conduct external investigations of the Food Stamp Program. External investigations are defined as those which target an individual, entity or group which is not directly involved with the administration of the Food Stamp Program. This service may also conduct investigations into authorized retail food stores when information relating to criminal activity is obtained from an external source (*e.g.*, confidential informant). The MOU requires that USDA/OIG be notified whenthis type of investigation is initiated.

It is important to note that food stamp investigations compete for resources with the many other investigative and protective responsibilities of the Secret Service. Even so, we have investigated large scale fraud schemes in selected regions when resources permitted. These case shave resulted in significant arrests and seizures.

One such investigation, "Operation Stampede", was conducted in the Chicago metropolitan area. "Operation Stampede" was a joint Federal and local law enforcement

investigative task force comprised of the Secret Service, the Bureau of alcohol, tobacco and firearms, U.S. Postal Inspection Service, Chicago police department, and the Cook County sheriff's department.

This task force was in operation from September 1991 through September 1992. The task force effected 90 Federal and State arrests, seized $157,000 in assets and recovered $70,000 in stolen vehicles. "Operation Stampede" revealed that there is widespread collusion between unscrupulous retail merchants and thieves who are more than willing to exchange food stamp coupons for unauthorized items. Undercover investigators purchased explosive devices, guns, vehicles, drugs and cash with food stamp coupons from "brokers" and collusive merchants. This task force discovered that just about anything and everything was for sale in exchange for food stamp coupons. Generally, the rate of exchange for food stamp coupons was 50 cents on the dollar. This task force investigation helps confirm what USDA/OIG statistics indicate: food stamp coupons are an alternate form of currency.

A typical Food Stamp Program fraud investigation conducted by this service operates as follows: having obtained information from a concerned citizen, merchant or a confidential source, an undercover agent will sell food stamps at a discounted rate to an authorized merchant for cash or contraband. This collusive merchant then deposits the food stamp coupons into his/her merchant bank account(s) for the face value of the stamps.

In a similar scenario, undercover agents will sell the food stamps to "brokers", who then resell the stamps to an authorized merchant for deposit. In both cases, the food stamps are tracked by this service through the redemption process to financial institutions, which ultimately forward the stamps to the Federal Reserve Bank.

The Secret Service has conducted smaller operations in other regions with proportionate success. We will continue to conduct large and small scale operations when resources and prosecutorial priorities afford us the opportunity.

As in all Secret Service investigations, Food Stamp Program fraud investigations have three primary initiatives:

1) arrest and prosecution;
2) identify and recover the proceeds of these criminal activities;
3) identify systemic weaknesses and propose remedies to prevent recurring criminal activity.

The following is a partial statistical summary for the Secret Service during fiscal year 1993 pertaining to Food Stamp Program fraud:

Cases received: 124
Cases closed: 144*
Arrests: 151
Convictions: 114
Manhours: 19,856
Food coupons expended for investigative use: $130,744

*Includes some cases opened prior to fiscal year 1993.

Our investigative experience leads this Agency to believe that the Food Stamp Program is vulnerable to fraud. Criminal involvement includes embezzlement, recipient fraud, authorized retailer fraud and trafficking in discounted food stamps by external parties.

In regard to the production of food stamp coupons, the Secret Service continues in its strong support of production of all U.S. Government obligations within the borders of the United States.

Current statistics indicate that the counterfeiting of food stamp coupons is virtually non-existent. In fiscal year 1993 the Secret Service made 11 arrests for passing or manufacturing counterfeit food stamp coupons. A total of $94,149.00 in food stamp coupons was passed or seized with $20 billion having been issued.

Three basic concerns arise, if our Government obligations were to be produced abroad:

1) Regulatory controls and safeguards in the production process may not be subject to direct U.S. Government oversight.

U.S. law enforcement does not have the authority to investigate the theft or misappropriation of U.S. obligations in a foreign country.

3) Prosecution of those who violate U.S. criminal statutes relating to these crimes in some foreign countries may be difficult, if not impossible, to attain.

It is our opinion that a foreign government or law enforcement agency should not be responsible for the integrity of United States obligations.

Mr. Chairman, I would like to briefly discuss the new initiative in the area of electronic benefit transfers.

The Secret Service is the primary Federal agency charged with enforcement of Title 18, USC 1029 (fraud and related activity in connection to access devices), and Title 18 USC 1030 (fraud and related activity in connection with computers). By definition, the EBT system should conform to these statutes for investigative and prosecutorial purposes.

This service has proven expertise in investigating crimes relating to credit/debit cards. The EBT card will present similar challenges to investigators faced with this new program. I cannot emphasize enough the importance of providing appropriate security features in the EBT cards and corresponding safeguards in the computer system maintaining this programs.

The Secret Service supports this committee's efforts to develop an electronic benefit transfer system that will provide protection against diversion of recipient benefits. The Secret Service will be helpful in these types of investigations, and in identifying system weaknesses that perpetuate fraud.

I will also add, Mr. Chairman, that this EBT system may reduce the administrative cost of the Food Stamp Program as some research has indicated. In addition, the system should be designed and implemented in a manner that attempts to reduce the potential for abuse by collusive merchants and fraudulent recipients.

In closing, the Secret Service supports initiatives which specifically incorporate measures designed to minimize fraud, while still meeting program goals. Both objectives are not mutually exclusive. To the contrary, incorporation of technology and systemic safeguards results in better resource allocation in both arenas. The potential for food stamp recipients being compromised will continue to be a concern. However, it is in everyone's interest that any resultant legislation include provisions whereby that potential for compromise is minimal.

That concludes my prepared remarks. I will be happy to answer any questions that you, or Members of your committee, may have at this time.

Robert Bucceri

My name is Robert Bucceri. I am senior vice president of Monetary Management Corporation, a small company based in Chester, Pennsylvania.

Monetary Management Corporation is a 15-year old company which was launched following implementation of the Food Stamp Act of 1977. Among the many services that

Monetary Management provides is the distribution of food stamps and other forms of financial family assistance under contract to State and local governments around the country.

Local governments contract with companies like mine to distribute, benefits because it is generally cheaper and more efficient to privatize many of the administrative functions of running programs such as food stamps.

Over the years Monetary Management has provided cost-effective issuance of benefits in the States of New York, New Jersey, Pennsylvania. Ohio, Michigan, Virginia, North Carolina, and California.

Each month approximately 3-quarters of a million families receive food stamps and public assistance through Monetary Management programs.

Monetary Management food stamp contracts put food on the tables of 1.7 million Americans every month. Each year we issue approximately 1.8 billion dollars in USDA food coupons. This makes Monetary Management, to the best of my knowledge, the largest private distribution agent for food stamps in the country.

If any company is qualified to address the topic of fraud in the Food Stamp Program and if any company has an interest in ferreting out fraud, and ensuring the integrity of the Food Stamp Program, it is Monetary Management Corporation.

Despite its problems, the Federal food stamp coupon program has been an excellent example of how government can help assure basic living standards for its neediest citizens. Every month I personally witness thousands of people who participate *legally* and *legitimately* in programs like the Food Stamp Program, Aid to Families with Dependent Children, and Supplemental Security Income. These are our customers. For this reason, Monetary Management wants to play a constructive role in the reduction of welfare fraud in this country.

In fact, on two occasions I have spoken or written to representatives of the USDA's Food and Nutrition Service about our willingness to participate with them in anti-fraud activities. Their reaction has been positive.

Before talking about how to reduce fraud in social programs like food stamps, it is important to spend a moment understanding where fraud occurs in the system.

Fraud in the Food Stamp Program occurs in two ways. When a person applies to the Food Stamp Program, he meets with an eligibility worker at the county, or sub-county level. His earnings, assets1 size of household are entered into a form. In most States this function is computerized.

That information is sent to a central data base, where it is bounced off of the parameters for eligibility. If the applicant meets the standards, the application is accepted and the person's case enters a Welfare Management System.

Once each month, that person is eligible to receive food stamps. The household information in the Welfare Management System is sent to a benefit issuance control system of some type to authorize the issuance of the benefit to that person.

Different States use different methods for issuing food stamps. These may include directly mailing the stamps to a home, mailing a paper voucher, called an Authorization-to-Participate, or ATP, to the home, which is later redeemed for stamps, or issuing an electronic identification card to authorize receipt of food stamps.

Formerly commercial banks and the U.S. Postal Service served as distribution points for food stamps, but have by and large stopped participating in the program for economic reasons.

Monetary Management has been involved in all forms of food stamp issuance allowed by USDA. In Ohio, Michigan and California we have issued food stamps by mailing through the Postal Service. In Virginia we have redeemed ATP vouchers for stamps at company operated issuance centers.

In Pennsylvania, we operate an Electronic Funds Transfer system for food stamp and AFDC issuance. We are also involved in two Electronic Benefits Transfer projects which I will speak about.

Therefore, there are two places where fraud may occur in the Food Stamp Program. One is during the certification and eligibility process, and the other is during the benefit issuance and redemption function.

Fraud during the benefit issuance and redemption cycle includes fraudulently obtaining someone else1s food stamps. Typically, this type of fraud would occur when someone steals someone else's food stamps out of the mail, or steals and successfully redeems someone else's ATP voucher.

Other forms of issuance fraud include buying and selling food stamps, or using food stamps for the purchase of Ineligible items, such as cigarettes or beer.

The sale of food stamps by someone legitimately entitled to receive them is also fraud. In these cases, recipients will pick up their stamps, and then sell them to brokers for a percentage of their face value.

The brokers In turn ultimately sell the stamps to dishonest food retailers who are certified by USDA to accept food stamps. These retailers then deposit the stamps in their bank accounts and receive full face value credit from USDA.

The majority of stores participating the Food Stamp Program are legitimate and honest. USDA estimate that only 1.5 percent of certified retailers are involved in trafficking. That's where enforcement efforts should be concentrated. For example, in Los Angeles, officials discovered two small grocers who allegedly trafficked more than $20 million in food stamps over a 3-year period.

It is true that in some urban neighborhoods food stamps have become the "coin of the realm," to turn a phrase being used for every thing from prostitution, to paying rent, to buying drugs.

However, it is important to note that this type of fraud cannot be committed without the help of dishonest retailers. That is to say, *without retailers willing to participate in this type of fraud, the food stamps would have absolutely no street value.*

Along with the Federal Government, a number of States prohibit food stamp trafficking1 Including Michigan, where my company distributes food coupons to 30 percent of the 400,000 eligible families. Sadly, there, as in other States, it is a prohibition honored more in the breach than the observance.

Fraud during the benefit issuance and redemption cycle is a one-time event. That means the perpetrator must commit fraud each month in order to perpetuate the crime.

Fraud during the certification cycle would include an ineligible person knowingly and fraudulently applying for the program. However, once this person is incorrectly certified. he remains eligible for the entire certification period, which can last months. In Detroit, a 39-year old social worker allegedly invented a phantom recipient, who was issued some $26,000 in food stamps.

According to USDA, $1.7 billion in food stamps were overpaid or sent to ineligible recipients in 1992. For that reason, certification fraud can be much more expensive on case basis than benefit redemption fraud.

USDA has looked at various alternatives to the current food stamp redemption program as a way of reducing benefit redemption fraud. One of the methods which has been studied and tested involves replacing the paper coupon system with an

electronic transfer of benefits from the issuing agency to the recipient and finally to a food retailer. This is called Electronic Benefits Transfer, or EBT.

In EBT, recipients receive a magnetic-striped plastic card, similar to a bank automated-teller card. Each month, instead of being issued paper food stamps, the recipient uses the card to pay for eligible food items at participating retailers up to the total amount of his or her monthly allotment. The retailer's bank account is credited by USDA the following day for the amount of the purchases.

USDA first tested the EBT concept in 1984 in Reading, Pennsylvania. In fact, Monetary Management today manages the retailer participation in that project under contract to the Commonwealth of Pennsylvania. So we understand the pros and cons of EBT.

There is no doubt that EBT reduces the misuse of food stamps and the diversion of benefits into other uses. It must, however, be pointed out in fairness, that there are some things EBT cannot do.

First, EBT can do nothing to stop recurring monthly certification and eligibility fraud. Once a recipient is fraudulently certified, he will obtain monthly benefits until caught. We have all seen the horror stories following the Midwestern floods this summer and the Los Angeles earthquake more recently. In both cases thousands of ineligible recipients were able to take advantage of the chaos around them to become certified to receive food stamps.

Second, there have been instances in Reading, and in other EBT projects where retailers, in collusion with recipients, ran fraudulent debit transactions on benefit cards, and paid a fraction of the transaction in cash to the recipient. The retailer would then be credited for the full face value of the transaction, pocketing the difference. This is the electronic equivalent of food stamp trafficking.

The fact of the matter is that if a dishonest retailer trafficked in food stamps, there is nothing to stop him from illegally profiting from a cash-for-benefits scheme under an EBT system.

The third and biggest unresolved issue with EBT is cost. For its participation in an EBT system, USDA requires that its costs for EBT in a State be no higher than it incurs in the existing paper system in that State.

Unfortunately, the commercial point-of-sale and telecommunications infrastructure which would make EBT cost neutral for the Federal Government does not exist in most States. That means it must be created each time a State builds an EBT system.

According to USDA's own studies, the cost of issuing food benefits in Reading is three times that of issuing coupons in the rest of the country. Proponents of EBT will argue that the cost in Reading is so high because there are relatively few families receiving benefits each month over which to spread the total overhead of the project. That is true.

The problem for States is how to build the critical mass necessary to make EBT projects feasible. Unfortunately, in many cases, this problem proves insoluble, because the current cost of servicing families through a paper coupon-system is so cost-effective, that there is no incentive to switch to an electronic system.

In fact, when the State of Texas recently accepted bids for an EBT food stamp system1 the proposed costs to build and run the project were four times the benchmark set by the State based on its existing paper system, according to published reports.

In Vermont, the State's monthly cost of issuing food stamps by mail is less than $1.35 per family It is difficult to imagine building a sophisticated electronic distribution system for less than that.

EBT proponents will also argue that the Reading data is out-of-date, and that new studies of an EBT pilot program in Bernalillo County, New Mexico shows that EBT can be as cost effective as a coupon-based system.

The problem with the New Mexico study, which formed the basis for rolling the pilot project out to the rest of the State, is that it based its conclusions on operating the system in a relatively tightly defined geographical area. It failed to take into account the cost of building a telecommunications "backbone" over which to transmit transaction data for a small number of retailers and recipients spread over a sparsely populated State.

The fact is, that despite its problems, the Food Stamp Program has been a remarkably efficient way to deliver billions of dollars worth of benefits to eligible recipients. For this reason, it is difficult to cost-justify switching to an Expensive electronic system of issuance for a single-state, single program like food stamps. The critical mass of programs and recipients, as well as the existing infrastructure to make that program efficient, does not yet exist.

There is no doubt that some day the infrastructure will exist, and the growing electronic interchange of data for various Federal entitlement programs will create the necessary critical mass.

The *National Performance Review* spearheaded by vice President Gore has identified EBT as one way to harness technology for more efficient government. It makes no sense to begin paying 1994 tax dollars to achieve efficiencies in the next century.

So the question remains: Is there a way in 1994 to achieve the advantages of a paperless EBT system without incurring tremendous cost? Can we meet the objectives of the *National Performance Review* in a cost-effective manner?

The answer is yes.

We need only look to the State of New York for an example.

In 1987, New York faced a variety of problems in administering its food stamp and public assistance programs. A quarter-million food stamp families depended on 300 commercial banks to distribute food stamps. When banks decided to stop distributing stamps the State was faced with the loss of its distribution system.

In addition, the State faced a massive problem in fraudulently redeemed ATP vouchers in its highly urbanized areas, which accounted for a large portion of its issuance. The administrative cost of replacing these benefits' for the legitimate recipients was a nightmare. Add to that the fact that in cities, recipients of AFDC, General Assistance, and other cash programs had to pay to have their welfare checks cashed at check cashing agencies.

New York examined the possibility of an EBT system, but found it too overwhelming and expensive. What they settled on is called the New York Electronic Benefits Issuance Control System, or EBICS. It is the largest, most successful electronic issuance system in the country.

We call EBICS a Retail Delivery System, or RDS, because it delivers benefits through a network comprised predominantly of food retailers.

New York's system provides it with most of the advantages of a paperless EBT system, but without many of the risks associated with EBT programs to date. I know about the ESICS program because I co-authored the original contract proposal to New York State, and Monetary Management has served as a subcontractor on the project since 1988.

In an RDS program like New York's, recipients are issued magnetic-striped benefit Issuance cards, which child support payments, can pick up their cash benefits at the same time, in the same place that they get their food stamps. These cash programs include AFDC, General Assistance, Home Energy Assistance and Shelter Payments.

The third advantage of ROS over traditional food stamp delivery systems is better security. The electronic benefits card eliminates the mailing of food stamps or paper ATP vouchers, both of which can be stolen in the mail. The use of the PIN number makes it virtually impossible to divert someone else's benefits unless you have access to the four-digit code.

It is true that the presence of paper coupons can still lead to trafficking. However, this would involve leaving the grocery stores to find a "buyer," then coming back at some point to shop. The fact that the stamps are issued inside of grocery stores seems to be a deterrent to trafficking.

In addition, an electronic record is created of all the food stamps issued by each participating retailer. All USDA has to do is compare a retailer's issuance record with his redemption deposits and look for significant variances.

Currently, more than 300,000 food stamp recipients get their monthly benefits through RDS. In addition, another 400,000 public assistance payments are made off of the system, delivering an additional $100 million in cash payments to needy families.

In fact, the State of New York is so pleased with what it has done with its EBICS system that it plans to-roll the system out to New York City, the largest food stamp project area in the country. This will add an additional 600,000 food stamp families to the system. By 1996 more than one million New Yorkers and their families will be on the system.

How does RDS stack up against futuristic EBT systems that use debit transactions to eliminate paper coupons? Very well, I think.

First, RDS is a demonstrably cheaper approach to automating benefit issuance control. Today the State of New York pays $2.43 for every monthly food stamp transaction. That is significantly less expensive than many price quotations offered recently to States looking to adopt EBT.

Second, it is more easily adaptable to a variety of demographic conditions, from dense urban areas to sparsely populated rural ones. Our terminals are found from chain store supermarkets in Buffalo to small family owned businesses near Indian reservations.

Third, because it requires less equipment and maintains a paper-based benefit, RDS can probably be rolled out nationwide more quickly than a debit EBT program.

Why does RDS not receive recognition in exercises like the *National Performance Review*? My personal feeling is that it is because ROS does not take the sexy, *Star Wars* approach of EBT. I do not have any ulterior motive for saying this, because the same service my company provides to the New York project we provide to contractors who build and operate EBT projects.

Because it is a retail-based delivery system using on-line technology, RDS is an incremental approach to the automation of benefits. It can provide States with most of the advantages of a paperless EBT program at a fraction of the cost. In fact, it probably provides 80 percent of the advantages of EBT with 20 percent of the risk and effort.

Simply stated, *RDS delivers more bang for the buck.*

There are two other advantages of RDS over EBT. The first involves Regulation E the Treasury Department rule governing consumer credit. The Federal Reserve Board of Governors is poised to extend the protection of Regulation E over consumer credit and debit cards to benefit issuance cards used for EBT. The application of Peg E to EBT systems could have a chilling effect on the proliferation of these types of projects because many States would be forced to accept and pay for fraudulent claims of non-receipt of benefits. Vice President Gore has asked the Board for a three-year moratorium on the decision, but that just extends the uncertainty for States.

However, I believe that RDS falls outside of the parameters of Reg E, since recipients do not have an "account" established within the meaning intended by the regulation. They simply use the card to authorize the receipt of benefits held for them by the State.

Second, it is important to note that RDS uses many of the technologies of EBT, except that it still supports paper-coupon benefits. The telecommunications, the mainframe computer and the point-of-sale equipment are all the same. RDS therefore provides a solid foundation for an ultimate transition to EBT since it builds the infrastructure in a more modest way and allows States to start saving now, while having the technology in place for the time when they think EBT is cost effective.

RDS has proven itself to be a good compromise between emerging technology and cost effective administration of public welfare. By eliminating paper redemption vouchers it has reduced fraud inherent in the system. It allows States to automate their benefit issuance controls while they wait for the time when EBT makes sense for them.

For these reasons I see it as a practical, workable approach to maximizing the tax dollars spent on improving the quality of life for our neediest citizens.

Thank you.

Cornelius D. Hogan

Mr. Chairman, and Members of the committee, I am Cornelius D. Hogan, Secretary of the Vermont Agency of Human Services. I am submitting this testimony on behalf of the American Public Welfare Association (APWA) to the Senate Committee on Agriculture, Nutrition and Forestry, pursuant to its February 2, 1994 hearing on Fraud in Welfare and Federal nutrition programs. APWA is a 64-year-old non-profit, bipartisan organization representing the 50 State human service departments, local public welfare agencies, and individuals. State public human service administrators have long been concerned about the integrity of public assistance programs,and ways through which improved program administration can help address problems of fraud and abuse.

As the agencies who carry out national assistance program policies, including the Food Stamp Program, we have an important, and highly relevant point of view to add to the committee's proceedings. We believe that improved automation, including the proper application of electronic benefit transfer (EBT) technology, can reduce fraud; that the success of State efforts is highly dependent on the continuation of suitable Federal matching funds and other assistance; and that needless program complexity and differences make payment accuracy much more dicult to achieve. Critical policy decisions in these and, other areas, now face us, and States ask to be heard on these vital issues.

We make the following recommendations that will enhance the integrity of the Food Stamp Program, and diminish opportunities for fraud and abuse.

EBT and Relation E

The February 2 hearing properly focused on the serious problem of trafficking in food stamp coupons and ways in which electronic benefit transfer (EBT) may reduce trafficking. We wholeheartedly endorse the expanded use of cost-effective EBT plans that enable States to deploy this highly promising technology. While EBT is noted must not be promoted as a cure-all for food stamp fraud, it does represent a major advance over paper coupons and has may well-documented advantages for both users and administrators. We urge the committee to work with us to avoid potential impediments to EBT implementation that could slow or even stop this great improvement in benefit delivery.

By far the most threatening roadblock to EBT is the possible imposition on benefit programs of the Federal Reserve Board's Regulation E, which would subject States to a new and completely unprecedented category of liability for food stamp losses. Under present program rules State agencies have no or very limited responsibility for lost or stolen benefits. In the relatively rare cases when recipients do suffer these losses, there is a array of other benefits and providers that assures families are seldom permanently hurt by such episodes. However, Regulation E would make States pay for all properly reported losses beyond the first $50 per user; State estimates show Regulation E could cost us from $300 million to $900 million annually in the Food Stamp Program alone.

Regulation E would, therefore, constitute a new unfunded mandate on States and immediately create a new benefit entitlement, whose need has heretofore never been called for, or documented. Indeed, clients in States and localities that have tested EBT, without the application of Regulation E, overwhelmingly support the program as it currently operates, and report that it helps build client responsibility. Unfortunately, we fear Regulation E would subvert much of EBT's anti-fraud potential, by creating a new incentive, for the unscrupulous to increase their episodes of program fraud and abuse.

S. 1646, The Food Stamp Fraud Reduction Act of 1993

Chairman Leahy has consistently supported the Food Stamp Program and has frequently helped to implement program improvements. His interest in the program is evident once again in the introduction of S. 1646, which would require a number of helpful steps toward EBT implementation, such as evaluating the feasibility of various technological options, and encouraging the establishment of nationwide standards.

We would like to propose several suggestions that we believe will strengthen S. 1646 and further help and encourage States to participate in EBT expansion. We are first concerned with the bill's 3-year deadline for nationwide implementation. This timetable would be very challenging for us to meet, particularly given that EBT is now in place in only a tiny fraction of project areas. Other difficulties we can foresee, include State budget constraints, present strict cost-neutrality requirements for EBT conversion, the slow and uncoordinated approval process from multiple Federal agencies, and the imminent end of enhanced funding for automation improvements. We urge the committee to re-examine the 3-year deadline issue and to add provisions allowing reasonable EBT start up costs prior to calculation of cost neutrality and restoring enhanced Federal match for automation.

Finally, we urge the addition of a provision to give States legislative relief from the liability provisions of Regulation E should the Federal Reserve decide to impose that regulation. States cannot shoulder the liability that Regulation E would impose and at the same time implement cost-effective EBT systems. Disposing of the Regulation E threat would be the single most helpful step toward encouraging and accelerating EBT.

Enhanced Matching Funds

A little noticed but, for States, highly significant funding cut contained in the OBRA FY 93 Reconciliation Act was the elimination of enhanced matching funds in the food stamp and AFDC programs. That provision eliminated the 75 percent match for State anti-fraud efforts, including fraud investigators, "front-end" eligibility specialists, and other staff directly working to maintain and improve program integrity. In fiscal year 92 States used nearly $83 million from this highly effective fluid, which beginning April 1 will be slashed to a 50 percent match level or a loss of nearly $28 million at fiscal year 92 usage rates. This loss is food stamp funds only and does not include a similar cut in AFDC matching funds; the AFDC cuts will further damage States' food stamp anti-fraud efforts since the two funding streams are combined and most investigations cover cases with both benefits. Most States cannot make up this loss from their own funds and are already reducing or eliminating many of their anti-fraud activities.

Elimination of these matching funds made only a minuscule difference in the Federal budget, yet will seriously curtail State efforts to combat fraud and abuse. May anti-fraud units have more than paid their way, but this net recoupment of public funds will no longer occur in many States. This was a short-sighted change we urge Congress to reverse at an early date.

A related issue is the amount of money States may retain from collecting overissued funds. Prior to fiscal year 91 States could retain 25 percent of nonfraud collections and 50 percent of fraud collections. Effective that year the rates were dropped to 10 and 25 percent respectively to pay for the one-time forgiveness of fiscal year 83–85 quality control sanctions. Under present law the cut will sunset at the end of fiscal year 95 and the higher rates will again be in effect. States urge that the sunset be left intact so that this additional fraud control incentive will again be available.

As cited above, enhanced match for automation improvements (presently 63 percent, and originally scheduled to rise to 75 percent in fiscal year 96) was also eliminated effective April 1 by the 1993 budget legislation. Supporters of that change said that States "have already automated" and that further incentives are not needed, but that argument ignores the fact that new technologies such as EBT are now available and States could implement them much more quickly with additional Federal stimulus.

Administrative Simplification

All along the continuum of the food stamp eligibility process, beginning with an applicant's first entry into a local food stamp office, both participants and administrators must deal with an unnecessarily complex and paper-intensive program. Present food stamp laws and rules often impede recipient access, burden administrators with unnecessary requirements, and needlessly inflate program costs. They also make our job of maintaining program integrity much more difficult. Caseworkers who are too busy with unnecessary paperwork cannot pay adequate attention to possible errors and other violations. States have little funding left over after attempting to staff the program's ballooning caseloads, which according to the latest USDA statistics have now reached a all-time high. Excessive rules create more loopholes for those who would abuse the program.

APWA has consistently documented the need for food stamp simplification and the parallel need for consistency with interacting programs such as AFDC. In December 1992 APWA published comprehensive AFDC/food stamp simplification and coordination proposals addressing 57 points of difference between these two programs; an updated copy of those proposals is attached for your-reference.[2] Reducing program complexity and differences is essential if we are to errors and other wasteful problems. These changes are also necessary for any true progress toward integrating programs under EBT, a sensible and achievable goal under this technology if program integration exists to support it. We urge the committee to support these legislative and regulatory recommendations.

Inefficient and Ineffective Requirements

Over the years several Federal mandates have been enacted with the purpose of reducing or preventing program abuse. We cite two of these that have proven ineffective and that now waste valuable State resources. One is the Income Eligibility and Verification System (IEVS), a series of computer matches States must run against data files from State wage data files, recipient lists for Supplemental Security Income, and other data bases. IEVS matches are extremely broad and specific, and do not reflect the actual utility of the relatively few useful matches that occur. These matches are expensive to operate, and following up on the matched information is time consuming and not cost effective. Most of the information from IEVS matches is outdated by the time it reaches us and is often already known to the Agency. IEVS should be made optional to States to use only when they determine it will provide cost effective information.

The Systematic Alien Verification for Entitlements (SAVE) system, a part of the Immigration Reform and Control Act (IRCA), suffers the same problems. It is used to verify with the Immigration and Naturalization Service (INS) each household member's alien status through either a automated system or by sending photocopies of each alien's immigration documents to INS. These requirements apply even when alien status is not in doubt and has already been verified by other documentation. States propose that use of SAVE be made a State option, to be used only when the alien status of: applicant is questionable and the alien cannot provide the documentation needed to verify his status.

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[2] Retained in Committee files.

These changes should be made immediately so that States can target their staff and funds in ways that yield usable results.

Quality Control Reform

The Food Stamp Quality Control (QC) System is one which APWA has brought to the attention of this committee many times over the years. States strongly support the concept of a rational and practical system to monitor State performance and improve program management. We strongly oppose the most salient characteristics of the present QC system, which include a skewed emphasis on process and paperwork rather than on total quality outcomes and the imposition of unreasonable fiscal sanctions on States rather than a Federal partnership in management improvement. Several helpful incremental changes have been made to the QC system but its core problems remain unchanged.

States have now entered a dialogue with USDA to pursue a comprehensive review of the QC system. While we do not know where these deliberations will lead, it is our hope that agreement can be reached on a system that operates via incentives rather than penalties and that defines quality in a comprehensive manner rather than as a relatively narrow spectrum of case processing details. We also urge the placement into law that States will reinvest QC sanctions into program improvements rather than pay them in cash to the Federal Government, something both States and USDA already agree makes sense. We believe that this more reasonable vision of QC will allow us to deploy scarce State resources much more effectively, including attention to some of the program integrity issues discussed above.

We will advise the committee of the outcome of these discussions and ask your support for our ongoing efforts to reform this key element of program management.

We again appreciate the opportunity to place these recommendations into the hearing record and look forward to working with the committee to continue improving the administration and integrity of the Food Stamp Program.

FACT SHEET ON WIC AND FOOD STAMP LOSSES AND FRAUD

Food Stamps:

- Program facts: Over 27 million Americans are on food stamps. The food stamp budget is $25 billion a year; 212,000 stores participate in the program.
- Well over $1 billion per year in food stamp benefits are lost through fraud, State errors, overissuances, or other programs losses.
- $100 million lost through trafficking in coupons each year.
- $22.5 million stolen or lost in the mail each year.
- Over $1 million in counterfeit coupons have been discovered and seized.

WIC:

- Program facts: 6.5 million pregnant women, infants and children will participate in WIC. The WIC budget is $3.2 billion in 1994.
- Three million eligible women and children cannot get on WIC because of budget limits WIC fraud robs these people of their benefits.
- **Fraud and benefit losses**: No reliable nationwide estimate exists regarding possible fraud losses in the WIC program.

Recently, Cook County, Illinois grand juries indicted 19 individuals (17 store owners/managers and two former city employees) and 13 stores for stealing tens of thousands of dollars from WIC. Store owners and employees conspired with WIC and food stamp recipients to exchange cash for the coupons.

- Penalties have to be tough enough to hurt criminals. New Leahy legislation "The WIC Fraud Prosecution Act of 1994" would put store owners in jail, throw the stores off the WIC program, and **confiscate the property** of those involved in trafficking with WIC vouchers.
- **WIC-Price-fixing**: The Federal Trade Commission investigated anti-competitive behavior by three large drug companies that provide most of the infant formula used by the WIC program. Legal actions were filed against all three companies and the FTC determined that serious anti-competitive activities took place.

Last session, Congress passed the "WIC Infant Formula Procurement Act" introduced by Senator Leahy which established fines of up to $100 million per year for WIC price-fixing.

Electronic Benefits Transfer (EBT):

- Leahy bill, "The Food Stamp Fraud Reduction Act of 1993" introduced November 8,1993, will eliminate food stamp coupons in 3 years and replace them with EBT—this will eliminate trafficking in coupons and reduce the potential for fraud and diversion of benefits by 80 percent.

California Earthquake:

- An estimated $120 million of emergency food stamps will be issued in Los Angeles this month to earthquake victims—in addition to the $200 million normally issued.
- 126,000 people have applied for emergency food stamps. (100,800 applications have been approved.)
- Seventy percent of those applying for emergency assistance are already food stamp recipients and therefore could be served easily and quickly with EBT in the future.
- **Five people arraigned**—Federal agents seized thousands of dollars worth of food stamps and cash and arrested 10 people suspected of trafficking in stamps intended for earthquake victims. There is an ongoing investigation by USDA. The five arraigned have been charged felony trafficking in emergency food stamps. The maximum penalty is 5 years in prison and/or a $250,000 fine.

SUMMARY OF "THE WIC FRAUD PROSECUTION ACT OF 1994"

The New Leahy Legislation:

- **Disqualifies stores from accepting WIC coupons.** The bill disqualifies stores from the WIC program if the store owners, managers or officials are involved in trafficking in coupons. This is in addition to any jail-time and fines imposed on the guilty individuals.
- **Imposes criminal penalties on anyone involved in trafficking of WIC vouchers.** Provides authority to the court to disqualify the person from WIC participation for 2 years in addition to any criminal fines or jail sentences which are imposed.
- **Asset forfeiture.** Provides for the forfeiture of any property to the Federal Government used in the commission of a WIC trafficking crime, and for the forfeiture of any property (including real estate and buildings) purchased with the proceeds of any trafficking transaction.
- **Requires State plans to combat WIC trafficking.** Requires States, as a condition of participation in the program, to provide to USDA (for approval) a detailed plan to detect and punish trafficking in food instruments or access devices by store owners or food vendors. States are required to target higher risk stores and vendors.

Summary

Office of Technology Assessment—"Making Government Work" Report Issued: September 1993

- Eliminating paper food stamps and implementing Electronic Benefits Transfer (EBT) nationwide would eliminate cash change and reduce trafficking in benefits and thus "might reduce levels of food stamp benefit diversion by as much as 80 percent."
  - This figure is close to the 78 percent reduction found in a USDA report on EBT in two pilot projects (in New Mexico and Minnesota). Use of EBT (instead of coupons) in these two pilots reduced benefit loss and diversion from an average of $4.85 per case month under a food stamp coupon system to an average of $1.05 per case month with EBT. If these savings can be assumed to apply to a national EBT system, EBT could save reduce benefit losses and diversion by over $500 million a year.
  - The OTA report notes the need for fast action. "Congress and the President need to act quickly on EBT, however, if opportunities for integrating services and capturing economies of scale are to be realized; otherwise Federal agencies and States will continue to move in their own directions creating potentially incompatible and uncoordinated EBT systems."
- EBT can "yield significant cost savings to retailers, recipients, financial institutions, and government agencies."

- A national EBT system also could reduce overpayments to eligible recipients or payments to ineligible recipients—estimated at about 6 percent of total food stamp and AFDC benefit payments (roughly $2 billion to $3 billion per year).
- OTA recommended a nationwide feasibility test prior to implementing a national EBT system.
- The printing, distribution, handling, and redemption of food stamp coupons costs over $60 million per year (including some state distribution costs).

SENATOR CONRAD'S QUESTIONS SUBMITTED TO WITNESSES AND RESPONSES THERETO

The Honorable Roland W. Burris

Question 1. How much is fraud, waste and abuse in Federal nutrition programs costing American Taxpayers?

Answer. We do not have an overall estimate of the extent of fraud, waste, and abuse occurring in the 14 Federal food assistance programs administered by the U.S. Department of Agriculture (USDA). However, in a current review, we are developing information on fraud, waste, and abuse in the Food Stamp Program, which accounts for about two-thirds of the approximately $40 billion Federal food assistance budget. Our review of USDA Food Stamp Program data indicates that an estimated $5.6 billion in food stamps were overissued between 1989 and 1992 because of fraudulent applicant claims, inadvertent applicant errors, and erroneous processing errors committed by State welfare workers.

In addition to these losses, million of dollars in food stamps are sold, traded, or used for other than non-food purchases each year. Hard evidence to quantify the amount of trafficking does not exists. It should be noted that trafficking does not directly increase Federal program benefit costs. Food stamps are redeemed by the U.S. Treasury at their face value whether they result from trafficking or legitimate use. On the other hand, efforts to combat food stamp fraud, waste and abuse do impact program costs. In fiscal year 1993, the Federal Government spent over $100 million combating food stamp trafficking and other program fraud and abuse.

Counterfeiting and the theft of food stamp coupons from he mail are also occurring in the Food Stamp Program. Losses to these fraudulent practices are viewed as minimal.

The only other food assistance fraud and abuse work we have done involves milk contract bid-rigging in school meal programs. Our review indicated that USDA needed to be more aggressive in taking action to debar companies convicted of bid-rigging on Federal contacts from selling milk to schools. Since USDA had not debarred any companies at the time of our review, we were unable to quantify the additional program costs resulting from this illegal activity.

Question 2. What impact will Regulation E have on State liabilities under EBT?

Answer. Regulation E implements the Electronic Funds Transfer Act of 1978 which establishes the basic rights, liabilities, and responsibilities of consumers who use electronic funds transfer systems and financial institutions that offer these services. Regulation E provides that consumers who properly report the loss of an electronic card are liable for no more than $50 of fraudulent charges on a stolen card.

On February 16, 1994, the Federal Reserve Board ruled that Regulation E is applicable to Federal Electronic Benefits Transfer (EBT) systems. In reaching its decision, the Federal Reserve Board heard arguments from the states and USDA's Food and Nutrition Service that Regulation E would result in increase costs to the States caused by the replacement of benefits associated with lost or stolen EBT cards. Estimates of these increased costs ranged from $69 million to $464 million per year for the Food Stamp Program alone. In considering its ruling, and weighing USDA and State arguments, the Federal Reserve was concerned about the accuracy of these estimates. Given this concern, the Board made its ruling that Regulation E would apply to Federal EBT systems but delayed implementation until 1997. This delay gives the Federal and State governments more time to develop better data on the potential costs and impacts of Regulation E on EBT systems.

None of the USDA EBT food stamp demonstration projects that we have examined as part of our review of alternatives to the coupon-based system have been subject to Regulation E—nor has USDA studied the impact that Regulation E would have on the cost to operate EBT. However, State officials at two of the projects told us that they had noted instances where EBT cards were being stolen and fraudulently used. Also, on a related issue, new types of fraud are occurring, such as retail-

ers fraudulently taking benefits from recipient accounts without the knowledge or approval of recipients and State employees fraudulently obtaining EBT cards and using the benefits.

Reference. You say in your testimony that the Federal Government has a prime opportunity to eliminate waste by eliminating fraud in the WIC program. You also say that any Federal funding is well spent if it is used to prosecute those who defraud the WIC program. We need to go one step further than eliminating waste, we need to cut Federal spending.

Question 3. Do you have any suggestions for ways to *prevent* fraud rather than spend taxpayer money to investigate and prosecute?

Answer. Our WIC prosecutions have targeted both the health clinic employee and the vendor, it is our opinion that these two groups provide the most cost effective targets. To prevent fraud all efforts should again target these groups, and remove the profit motive from the WIC system.

One form of prevention being explored by the Illinois Department of Public Health and our office is the concept of a WIC store. In Chicago, Public Health officials, in conjunctions with Catholic Charities, have established stores where only WIC products are sold. In these venues the only currency exchanged is WIC food instruments. The WIC stores are large food centers that serve many more customers than a small convenience type store, and remove the need for many small vendors.

Other fraud prevention devices already in place which should be utilized are the State and local computer systems. The Illinois Department of Public Health computer system tracks vendors, clinics and participants use of WIC food instruments in great detail. This computer information should be subject to greater scrutiny to prevent fraud. If anomalous computer data was swiftly investigated, and the corresponding offenders expelled from the program, vendors would think twice before cheating the system.

Further, the certification process for vendors and health clinic employees should be strengthened. These individuals should be subjected to stricter scrutiny including criminal, immigration, and IRS background checks. A WIC license or health clinic job is not a right, and certain people should be disqualified.

Finally, the vendor payment process is too easy to cheat, and should be revamped. Each vendor should be required to sign an affidavit which would accompany each deposit. The affidavit would simply state the instruments were received in accord with the rules and regulations of the WIC program. Only after receipt of the deposit affidavit would the Illinois Department of Public Health release funds to the vendors. The retention of funds by the Department in interest bearing accounts could also provide additional funds.

Robert H. Rasor

Question 1. Does the investigation of food stamp fraud impact on our protective responsibilities?

Answer. The Secret Service investigative program is separate and distinct from the protective program. Resources are not reallocated from a protective responsibility to conduct an investigative assignment. Agents permanently assigned to our protective mission are not utilized for investigative case work. However, if additional support is warranted to complete a short-term protective assignment, agents assigned to investigative offices may be utilized for temporary protective duty.

Food stamp program fraud investigations compete with other investigative responsibilities such as financial institution fraud, access device fraud, computer fraud, telecommunications fraud, and counterfeit currency cases for investigative resources.

Secret Service investigative tasks are performed by agents permanently assigned to the more than 120 field offices nationwide. In an effort to maximize the effectiveness of our resources, priority is given to those investigations that have the greatest economic and social impact, and are in alignment with the prosecutive priorities of individual Federal districts.

Question 2. To what extent have Secret Service and other agency resources been utilized in combating Federal nutrition program fraud?

Answer. I am not in a position to accurately identify the amount or type of resources allocated by other agencies. I can however, advise you of Secret Service personnel resources utilized during the last three fiscal years. My testimony on February 2, 1994, reflected that 191856 manhours were devoted to Food Stamp Program fraud in fiscal year 1993. I would now add that agents devoted 16,520 manhours in fiscal year 1991, and 26,697 manhours in fiscal year 1992.

Question 3. What suggestions would you make in order to curtail fraud and abuse within the Federal nutrition programs. Your response should also include systemic and technological enhancements.

Answer. Bilateral support should be given to insure the passage of HR 3131 (Forfeiture Act of 1993) filed in the House of Representatives as part of Crime Control Act on September 27, 1993. This bill requests that Title 7 USC 2024 (B) be amended to qualify as a specified unlawful act (SUA) to Title 18 USC 1956 (Money Laundering). This will provide legislation to law enforcement to seize and forfeit illegally gained assets identified during Food Stamp Program fraud investigations. This is a valuable tool in recovering assets that corrupt merchants have acquired.

Current regulatory controls within Food Nutrition Services (FNS) allow FNS to cancel or suspend authorized merchants found trafficking in food stamp coupons. These regulatory controls need to be strengthened and strictly enforced. Administrative systems should be established so merchants proven to traffic in food stamp coupons are prevented from attaining authorized merchant status under different corporate names or as a silent partner. This will require stricter and more detailed reporting requirements to qualify as an authorized merchant.

Software enhancements should be implemented in FNS to enable monitoring of authorized merchant food stamp coupon transactions and comparisons of the merchants historical transactions, so that any unusually high increase in activity is flagged for regulatory inspection. This software should also be able to compare the volume of food stamp coupon transactions with the merchant's food item inventory potential.

With the move towards an electronic benefit transfer (EBT) environment, the credit/debit card industry should be utilized to aid in the development of a more secure and efficient system. The industry has developed various security systems that have reduced the potential for compromise of the computer systems that control the interchange networks and administrative files. In addition, technological advances have allowed for the development of physical security features that reduce counterfeiting.

Secret Service experience in the enforcement of laws relating to access device violations has increased our knowledge of forensic science applications to credit/debit card fraud and counterfeiting. We are prepared to lend this expertise to the development of the EBT system.

Thank you for your questions. If there are any further questions, or if the Secret Service can be of any additional assistance, please do not hesitate to call.

Emilio Gonzalez

Reference: One of the reasons I am interested in EBT is the potential of the system to save administrative costs in the long-term for the Government.

Question 1: What have you found when you look at specific numbers for both the short-term and long-term impacts that an EBT system will have on these costs? Also, did you look at the cost of applying Regulation E to EBT? if so, what did you find?

Answer.

General Discussion.

Cost-effectiveness is not assured with EBT. It depends on what costs and benefits are included and/or what development and implementation strategies are pursued. Cost-effectiveness is crucial if EBT is to be a viable alternative to paper for delivery of government benefits. A major factor affecting administrative cost is the process of issuing and redeeming benefits. Pilot tests indicate that EBT can be cost effective for participating retailers and financial institutions, but savings to Federal and State government are less certain. EBT has the potential to streamline the administrative overhead associated with paper-based delivery systems, thereby improving efficiency and reducing costs.

In order for EBT to be cost-effective for the Federal Government, the cost of the current paper-based system would have to be reduced by an amount greater than the EBT cost—all factors considered. This could necessitate significant reductions in the current Federal/State staffing and bureaucracy that administers these benefit programs. Also, EBT could serve as a catalyst for integrating the administrative requirements associated with benefit programs and lead to reductions in administrative overhead. A multiple-program EBT system, for example, could help consolidate and streamline front-end eligibility determination for many benefit programs.

Specific long-term and short-term cost savings that would be attributable to EBT are unknown at this time because virtually all EBT projects are at the pilot (not

pre-operational or operational) stage (except for the State of Maryland). Pilot projects do not capture the full economies of scale and scope possible with EBT. In the case of Maryland's operational EBT project, the State is preparing an evaluation/assessment report that is due in March 1994. That report may shed light on whether Maryland has succeeded in attaining real cost savings through the use of EBT for delivering government benefits.

The economic impacts of applying Regulation E to EBT are unknown for two reasons. First, we do not have empirical data on the impact of Regulation E because all EBT pilots and the Maryland EBT project have not had to provide the protection of Regulation E to recipients. Second, it is uncertain what the level of lost and/or stolen benefits will be in an EBT environment. For example, in an EBT setting, a lost card does not necessarily equate to lost benefits. Someone can steal or find an EBT card, yet be unable to use it without the proper PIN. Estimates that suggest applying Regulation E to EBT would raise the cost of program administration by 100 percent are unfounded. We simply do not know what the impact will be until we test an EBT system with Regulation E protection.

Overall, despite the numerous EBT feasibility studies and evaluations conducted to date, many important cost-related questions remain unanswered due to a lack of authoritative data and other uncertainties that affect cost projections (*e.g.*, what cost-sharing arrangements will be in place, if any). The issue of "who pays" is a complex policy question. New opportunities for cost-sharing and partnering between the Federal and State governments and the private sector can help offset and defray some of the startup costs associated with EBT. The Federal and State governments can leverage the rapid growth of commercial POS terminals in retail locations. POS systems used for commercial debit/credit transactions, as well as for EBT, tend to yield higher profit margins and a competitive advantage for retailers.

Most prior cost analyses have assumed that all costs associated with EBT system design, development, installation, and implementation would be borne by the Federal and State governments. This need not be the case. Federal/State governments could use, to the maximum extent possible, the private sector's POS/ATM infrastructure and provide supplemental equipment and EBT access only for geo-graphic areas and recipients not otherwise served. Federal and State governments could duplicate the model used by the State of Maryland to establish a statewide, multiple-program EBT system that combines a contractual and partnership relationship with the private sector.

Specific Cost Estimates

Implementation Costs. The installation of POS terminals (including equipment and site preparation) is the largest single implementation expense. At $300 per installation, plus $500 for the terminal itself, cost estimates range from $120 million for 150,000 terminals to $480 million for 600,000 terminals. These estimates assume that EBT system vendors will be able to modify existing POS software rather than develop new software. The estimates assume that PINs are assigned by the vendors, which is less expensive, rather than selected by the recipients.

As of June 1991, 70,000 commercial POS systems were deployed in stores nationally. Today, roughly 93,000 POS terminals are deployed, with about 41,000 in food stores and supermarkets. Earlier EBT cost projections for food assistance programs assumed that terminals would be deployed in all checkout lanes of all participating stores, thereby requiring about 600,000 terminals. Recent estimates suggest that far fewer additional terminals may be needed—perhaps 300,000 POS terminals.

Each 10 percent reduction in additional terminals would reduce implementation costs by another $24 million. Also, EBT vendors may be willing to assume a share of implementation costs because vendors can amortize the purchase of POS terminals over several years and treat this as a monthly operating expense. For estimating purposes, OTA assumed that 150,000 additional terminals would be needed to meet the 300,000 level (90,000 existing terminals, plus 60,000 expected through further private sector deployment, plus 150,000 additional terminals).

Another major cost element is the purchase of cards for each eligible and participating recipient. The number of cards will depend on the number of programs included and the number of recipients per card. For estimating purposes, OTA assumed a multi-program EBT card that covers food stamps, WIC, AFDC, general assistance, and 551. These programs serve roughly 55 million persons. This assumes that 28 million persons receive food stamps, 6 million receive WIC, 16 million receive AFDC and general assistance, and 5 million receive 551. Adjusting for overlap, about 45 million different persons receive food stamps, WIC, AFDC/general assistance, and/or 551 benefits. Assuming that cards would be issued only to adults, not children, OTA estimated the number of cards to be issued at 30 million (this allows some margin for replacement cards and growth in the number of recipients).

The card cost, therefore, would be about $15 million for magnetic stripe cards (assuming a cost of $0.50 per card) and roughly $105 million for smart or hybrid cards (assuming a cost of $3.50 per card). Use of hybrid or smart cards also would necessitate conversion or retrofitting of the existing POS and ATM infrastructure at a cost of $45 million for the POS terminals ($500 per unit) and $225 million for the ATMs ($2,500 per unit for complete retrofit).

Another cost element is the initial training of recipients and personnel from participating retailers and banks, estimated at about $25 million. The total estimated implementation costs for a nationwide EBT 'system for the selected social services (assuming 30 million cards issued) are $160 million for a magnetic stripe card system and $520 million for a hybrid or smart card system.

Cost projections for a multi-program (*i.e.*, food stamps, AFDC, WIC, 551, and other benefits) national EBT system are still within the $200 million to $300 million range. However, these projections do not factor in an aggressive Federal Government pursuit of cost-sharing/cost-reduction strategies, nor do they account for the continued growth of POS terminal deployment by commercial retailers irrespective of EBT.

Operating Costs: The two largest operating costs are terminal amortization and transaction fees. These costs can be negotiated into a contract with an EBT processor who will bear the up-front capitalization of purchasing and installing terminals. The processor includes the costs of transactions and the necessary hardware/software investments in the monthly case fees charged to the Government.

Assuming a POS terminal replacement cost of $500 per unit and that a national EBT system requires 300,000 terminals, a $150 million investment would be necessary every 5 to 7 years (the life of a typical terminal). Amortized over 5 years, the annual terminal cost would be about $30 million. These estimates are at the high end and do not account for accelerated private sector terminal deployment for commercial purposes and/or cost-sharing by participating retailers and banks. For estimating costs, OTA assumed that the Government would pay one-half, or $15 million per year.

Transaction fees are incurred when a recipient uses an EBT card at an ATM or POS terminal. OTA assumed typical transaction fees of about $0.10 for an on-line debit (or credit) transaction, $0.02 for an off-line debit transaction (since no telecommunications or central computer verification are required), and $0.50 for a cash transaction.

For a multi-program EBT system with 30 million active cards, and assuming 12 transactions per recipient per month,the illustrative transaction costs for a magnetic stripe card EBT system are roughly $1 billion per year, or about $2.75 per case per month. This is roughly equivalent, or perhaps slightly lower, than the average paper-based costs for the Food Stamp Program alone. Transaction costs could be further reduced if the Federal Government negotiates fees lower than current commercial averages or if the number of allowable "free" monthly recipient transactions—especially cash transactions—were to be reduced.

The comparable estimated costs for a hybrid card system are about $200 million less per year than a magnetic stripe card system. This suggests that the additional up-front cost of a hybrid card system would be recovered in about 2 years' worth of savings in transaction costs. Note that card replacement costs could be a significant offset.

The comparable costs of a "no cash" system—for any type of card—would be dramatically lower due to the elimination of cash transaction fees. The estimated net additional annual savings would be over $500 million. A "no cash" system would necessitate widespread terminal deployment so recipients could make debit purchases at virtually all retail outlets. But most important, a "no cash" system would require recipients to adjust to a truly "cash-less, check-less" benefits program. This could be difficult. A large percentage of food stamp, WIC, and AFDC recipients do not have bank accounts, and may not have any other way to readily obtain cash.

Another operating cost is training for new recipients and staff, and periodic refresher training for current recipients and staff, estimated at about $10 million per year.

Any EBT system is likely to reduce fraud, waste, and abuse. A national EBT system would, for example, reduce losses that take place through diversion of benefits when paper checks or coupons are used. Reducing the levels of benefit diversion could offset some of the costs of a national EBT system, and, perhaps more importantly, improve the public's perception of the integrity of government programs. By eliminating cash change and reducing the opportunity for trafficking in benefits, a national EBT system might reduce levels of food stamp benefit diversion by as much as 80 percent. While this would not translate directly into savings in Food Stamp Program costs, it would mean that more benefit diversion by as much as 80 percent.

While this would not translate directly into savings in Food Stamp Program costs, it would mean that more benefits are directed toward authorized food purchases. A national EBT system is likely to have some effect on net levels of food stamp benefit loss-currently about $0.09 per case month. Elimination of these losses would reduce costs by up to $30 million per year, enough to, for example, offset a large part of the annual amortization charge for POS-terminal deployment.

Robert A. Robinson, Associate Director, General Accounting Office, Washington, DC

Question 1. How much is fraud, waste and abuse in Federal nutrition programs costing American taxpayers?

Answer. We do not have an overall estimate of the extent of fraud, waste, and abuse occurring in the 14 Federal food assistance programs administered by the U.S. Department of Agriculture (USDA). However, in a current review, we are developing information on fraud, waste, and abuse in the Food Stamp Program, which accounts for about two-thirds of the approximately $40 billion Federal food assistance budget. Our review of USDA Food Stamp Program data indicates that an estimated $5.6 billion in food stamps were overissued between 1989 and 1992 because of fraudulent applicant claims, inadvertent applicant errors, and erroneous processing errors committed by State welfare workers.

In addition to these losses, million of dollars in food stamps are sold, traded, or used for other than non-food purchases each year. Hard evidence to quantify the amount of trafficking does not exist. It should be noted that trafficking does not directly increase Federal program benefit costs. Food stamps are redeemed by the U.S. Treasury at their face value, whether they result from trafficking or legitimate use. On the other hand, efforts to combat food stamp fraud, waste and abuse do impact program costs. In fiscal year 1993, the Federal Government spent over $100 million combating food stamp trafficking and other program fraud and abuse.

Counterfeiting and the theft of food stamp coupons from the mail are also occurring in the Food Stamp Program. Losses to these fraudulent practices are viewed as minimal.

The only other food assistance fraud and abuse work we have done involves milk contract bid-rigging in school meal programs. Our review indicated that USDA needed to be more aggressive in taking action to debar companies convicted of bid-rigging on Federal contracts from selling milk to schools. Since USDA had not debarred any companies at the time of our review, we were unable to quantify the additional program costs resulting from this illegal activity.

Question 2. What impact will Regulation E have on State liabilities under EBT?

Answer. Regulation E implements the Electronic Funds Transfer Act of 1978 which establishes the basic rights, liabilities, and responsibilities of consumers who use electronic funds transfer systems and financial institutions that offer these services. Regulation E provides that consumers who properly report the loss of an electronic card are liable for no more than $50 of fraudulent charges on a stolen card.

On February 16, 1994, the Federal Reserve Board ruled that Regulation E is applicable to Federal Electronic Benefits Transfer (EBT) systems. In reaching its decision, the Federal Reserve Board heard arguments from the States and USDA's Food and Nutrition Service that Regulation E would result in increased costs to the States caused by the replacement of benefits associated with lost or stolen EBT cards. Estimates of these increased costs ranged from $69 million to $464 million per year for the Food Stamp Program alone. In considering its ruling, and weighing USDA and State arguments, the Federal Reserve was concerned about the accuracy of these estimates. Given this concern, the Board made its ruling that Regulation E would apply to Federal EBT systems but delayed implementation until 1997. This delay gives the Federal and State governments more time to develop better data on the potential costs and impacts of Regulation E on EBT systems.

None of the USDA EBT food stamp demonstration projects that we have examined as part of our review of alternatives to the coupon-based system have been subject to Regulation E—nor has USDA studied the impact that Regulation E would have on the cost to operate EBT. However, State officials at two of the projects told us that they had noted instances where EBT cards were being stolen and fraudulently used. Also, on a related issue, new types of fraud are occurring, such as retailers fraudulently taking benefits from recipient accounts without the knowledge or approval of recipients and State employees fraudulently obtaining EDT cards and using the benefits.

SENATOR HELM'S QUESTIONS SUBMITTED TO THE HONORABLE ELLEN HAAS WITH RESPONSES THERETO

Question 1. Please provide for the record the special Food Stamp Program eligibility and verification rules in effect in the Los Angeles area following the recent earthquake.

Answer. To be eligible for the special disaster Food Stamp Program, applicants must be residing in the area designated as a disaster area for the purposes of the Food Stamp Program and intend to purchase and prepare meals. They must be in immediate need of assistance because they have suffered a disaster-related loss of income or property damage, or be unable to access their liquid resources. Applicants must provide the name, social security number (if known), and date of birth of all household members who are living, and eating with the applicant during the disaster. The applicant must also provide the source and amount of take-home pay and any other income received or expected to be received during the time the disaster program is operating. In addition, the applicant must list all liquid resources the household will be able to obtain during the disaster and the disaster-caused expenses the household paid or expects to pay.

Applicants must verify their identity and residency in the disaster area. An effort is made to verify social security numbers and income or expenses.

The total of available income and resources minus disaster expenses is compared with the eligibility standard for the household's size. The eligibility standard consists of the Food Stamp Program net income eligibility limit plus the standard deduction and excess shelter expense cap. An eligible household receives the maximum allotment for the household size.

Question 2. In addition, please provide the same information for the nine other largest food stamp disaster assistance issuances in the history of the Food Stamp Program.

Answer. Except for the special program operated as a result of a lawsuit following the 1992 civil disturbance in Los Angeles, the eligibility criteria listed in the first answer have applied every time the disaster Food Stamp Program has operated.

Question 3. I am deeply interested in the rate of error in Food Stamp Program issuances. Please provide the calculated rate of error in overissuances and underissuances in the Food Stamp Program, as well as the dollar value of overissuances and underissuances, for each year in which those calculations have been made for the Food Stamp Program.

Answer.[3]

Question 4. Has there been any change in the definition or method of calculating overissuance or underissuance in the Food Stamp Program since this administration took office?

Answer. No, there has been no change in the definition or method of calculating overissuance or underissuance in the Food Stamp Program since this administration took office. However, P.L. 103–66, the Mickey Leland Childhood Hunger Relief Act, made changes in the method of calculating the amounts of States' liabilities for excessive errors. These changes are retroactive to fiscal year 1992.

In response to concerns raised during consideration of the Mickey Leland Childhood Hunger Relief Act in 1993, the Department is undertaking a review focused on the way in which incentives and liabilities are applied to the States, based on error rates generated by the Food Stamp Quality Control system. This process will elicit input from Congress, the States, and others.

Question 5. Will you pledge to consult with this committee prior to undertaking any change in the definition or method of calculating overissuance or underissuance in the Food Stamp Program?

Answer. If the Department were to change the definition or method of calculating overissuance or underissuance in the Food Stamp Program, we would inform the committee prior to implementing any changes.

Question 6. What is your best estimate of the level of administrative waste in the Food Stamp Program?

Answer. If your question refers to inaccurate benefit-dollar determinations, in fiscal year 1992, we estimate that $2.2 billion in benefits were inaccurately determined by States. This figure includes $0.5 billion in benefits under issued as well

[3] The Honorable Ellen Haas provided a chart in answer to Question 3. See page 83.

as $1.7 billion over issued. Some of these errors can be attributed to States applying policy incorrectly or failing to act properly on information supplied by clients. Other errors are caused by clients not reporting necessary information or reporting it incorrectly. States report that State-agency caused errors account for approximately $1.3 billion. This estimate is based upon State data which has not been verified by the Department.

Question 7. What cost to Federal taxpayers do you estimate to exist due to other forms of Food Stamp Program abuse?

Answer. The Department has reporting and reconciliation systems in place to detect and recover various types of program benefit losses.

During fiscal year 1992, almost $21 billion in benefits were issued. The Department experienced mail issuance losses of approximately $22.5 million during this same time period. States are billed for all mail issuance losses which exceed the mail issuance tolerance level.

In addition, States are strictly liable for and billed for:

1) coupon shortages and losses;
2) benefits overissued without authorization; and
3) coupon thefts, employee embezzlements, cashier errors and unexplained causes

Question 8. Please explain the basis for your estimate for **Questions 6** and **7.**

Answer. In our answer to **Question 6,** we discussed the dollar amounts of overissuances and underissuances of food stamp benefits. Except as noted in the response, these estimates are based on data generated by State-agency sampling reviews of actual case determinations, and Federal reviews of a sampling of the State reviews. The exception is that the data related to State-agency-caused versus client-caused errors is state-agency data which is not verified by Federal review. Our answer to **Question 7** is based upon accountability reports provided by States.

Question 9. What verification activities are performed in the Food Stamp Program that are not performed in the Women, Infants, and Children (WIC) Program eligibility determination process? Please include utilization of differences in verifying information.

Answer. The Food Stamp Program and WIC Program use similar sources of information to determine an applicant's eligibility for program benefits. The only exceptions are those that are not applicable to the WIC Program, such as the test for citizenship and alien status, and the resource test. The attached chart provides examples of the types of source documentation that was used during the eligibility determination process.[4]

Question 10. Are there Food Stamp Program eligibility determination procedures that might have helped prevent the kind of WIC program fraud that was recently reported by Illinois Attorney General Roland Burris at today's hearing?

Answer. Recognizing that the eligibility determination procedures for the WIC Program are the same as those for the Food Stamp Program, we do not believe that there are other eligibility determination procedures that might have helped to prevent the kind of WIC Program fraud that was reported by Illinois Attorney General Roland Burris. Generally, there should be a separation of duties for local clinic staff involved in determining eligibility for the program, and those charged with issuing food instruments. The separation of responsibilities is intended to minimize the possibility of participant or clinic fraud.

In addition, States are required to review local WIC agencies, and a minimum of 20 percent of clinics operating under each local agency, at least once every 2 years. Such reviews include evaluation of management8 certification, accountability, and financial management systems. Noncompliance can result in loss of program. Where fraud is detected, individuals are subject to fines of $51,000—$10,000, imprisonment of not more than 5 years, or both. The State agency may conduct additional on-site reviews as it finds necessary in the interest of efficiency and effectiveness of the program.

Question 11. One of the other common problems with abuse in the WIC Program has been retailers "marking up" the purchase price on WIC items for the WIC sale alone. In other words, if an item costs $1.00 and the voucher value is $1.10, the store is supposed to redeem the voucher for $1.00, but on occasion, retailers have been caught redeeming the voucher for the maximum voucher value, thus, defrauding the WIC Program from substantial moneys. Do you have an estimate of the extent to which this problem occurs?

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[4] The source documentation is on page 84.

Answer. In fiscal year 1991 FNS conducted the WIC Vendor Issues Study, which was the first study to investigate the magnitude and incidence of WIC Program overcharging on a national scale. In this study, undercover investigators, trained to simulate the behavior of WIC participants, made purchases at a representative sample of authorized stores. Of the approximate 45,000 authorized WIC vendors nationwide, the study sample consisted of 1,205 authorized vendors.

The results, extrapolated to the retail vendor population from which the sample was drawn, suggest that approximately 22 percent of vendors overcharge for WIC foods. The study findings did not differentiate between vendors that overcharged $.01 and vendors whose overcharges were substantially greater. Although the study did find that small stores with one to five cash registers overcharge more frequently than larger stores. The aggregate loss due to overcharging is about $39.5 million, or 1.9 percent of estimated annual retail redemptions. This is substantially less than the amount suggested by previous OIG reports. In addition, the study unexpectedly found a substantial amount of undercharging.

Question 12. What procedures are in place to prevent abuse, such as the kind detailed in **Question 11**?

Answer. Generally, in the retail purchase system, States contract with a USC bank to screen food instruments for overcharges. Food instruments that exceed the maximum value are rejected by the bank. Those that are not rejected are further scrutinized for overcharges. Further, statistical indicators are employed to detect vendors with suspicious redemption patterns. Once a suspicious vendor is flagged, States may conduct a compliance investigation to obtain evidence of abuse. In addition, as a preventative measure, States review vendor qualifications and screen vendors prior to authorization, and upon authorization, offer training to vendors.

FOOD STAMP PROGRAM
DOLLAR VALUE OF OVER & UNDERISSUANCES
FY 1981 - FY 1992

QC Period	Overissuance Error Rate	$ Value of Overissuances 1/	Underissuance Error Rate	$ Value of Underissuances
FY 1981	9.90	$1,013,137,755.50	2.50	$255,842,868
FY 1982	9.54	$905,764,365.06	2.44	$231,663,003
FY 1983	8.32	$894,504,310.50	2.45	$263,405,716
FY 1984	8.59	$902,320,084.00	2.32	$243,699,953
FY 1985	8.27	$847,502,397.16	2.21	$226,478,875
FY 1986	8.09	$840,024,011.58	2.27	$235,705,131
FY 1987	7.58	$742,792,841.18	2.63	$257,723,638
FY 1988	7.41	$825,622,613.48	2.52	$280,778,541
FY 1989	7.27	$849,249,361.98	2.54	$296,711,607
FY 1990	7.35	$1,036,960,425.14	2.47	$348,475,136
FY 1991	6.96	$1,206,775,325.15	2.35	$407,460,059
FY 1992	8.19	$1,711,896,359.85	2.50	$522,556,886
Total		$11,776,549,850.58		$3,570,501,412

1/ Dollar value of loss based on estimated monthly issuances.

ELIGIBILITY/VERIFICATION SOURCE DOCUMENTS

Category	Food Stamp Program	WIC Program
Age & Relationship:	Birth Certification Driver's License	Birth Certification Driver's License
Residency:	Utility bills Piece of mail received at stated address Rent and mortgage receipts that show the address Statement from non-relative landlord	Utility bills Piece of mail received at stated address Rent and mortgage receipts that show the address Statement from non-relative landlord
U.S. Citizen:	Birth Certificate	Not applicable; no citizenship requirement
Alien Status:	Alien Registration Card	Not applicable; no citizenship requirement
Earned Income:	Pay stubs Employee's W-2 form Income tax forms (State or Federal) Self-employment bookkeeping records	Pay stubs Employee's W-2 form Income tax forms (State or Federal) Self-employment bookkeeping records

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United States Senate
COMMITTEE ON
AGRICULTURE, NUTRITION AND FORESTRY
WASHINGTON, DC 20510-6000

May 20, 1993

The Honorable Alan Greenspan
Chairman
Federal Reserve, Board of Governors
Washington, D.C. 20551
ref: Docket No. R-0796

Dear Chairman Greenspan:

We appreciate the opportunity to comment on the Federal Reserve Board proposal to extend the provisions of the electronic fund transfer regulation (regulation E) to Electronic Benefit Transfer (EBT) programs, in particular to nutrition programs administered by the Department of Agriculture.

We are writing, as a members of the Senate Agriculture Committee, to emphasize how important EBT is to the food stamp program. This has been an issue of longstanding interest to the Committee. We have followed the pilot projects with interest. As a result, the 1990 Farm Bill contained provisions to encourage states to utilize delivery of food stamp benefits through EBT. A large number of states have shown interest in moving forward with this delivery system. Likewise, in areas where EBT is now operational, it has been well-received by all parties.

Implementation of EBT has the potential to reduce fraud significantly, better serve recipients, and greatly ease burdens currently placed on retail stores.

However the Board chooses to resolve the regulation E matter, we urge you to give USDA maximum flexibility to design a system that encourages state and local participation in EBT and enhances program integrity, while protecting the rights of recipients. Thus we urge you not to preclude USDA from designing program rules except regarding matters directly within your jurisdiction.

We look forward to the decision of the Board and the issuance of your final regulations.

Sincerely,

Patrick Leahy
PATRICK J. LEAHY
United States Senator

Bob Dole
ROBERT DOLE
United States Senator

Richard G. Lugar
RICHARD G. LUGAR
United States Senator

Mitch McConnell
MITCH MCCONNELL
United States Senator

February 1, 1994

To: Senator Kerrey's Office

From: Michael B. Harris, Administrator
Food Programs, Nebraska Department of Social Services

Re: Food Stamp Coupon Fraud and Electronic Benefit Transfer (EBT)

This is follow up to our telephone conversation this morning in which we discussed the positive impact EBT would have upon food stamp coupon fraud. You asked that we provide you with additional information about EBT costs, and possible barriers to EBT implementation in Nebraska.

A cost analysis and/or feasibility study for implementing EBT in Nebraska has not been completed to date. Current Food and Nutrition Service (FNS) regulations require states to achieve cost neutrality of EBT systems. Studies of other States EBT demonstration projects show that it is most cost effective in urban areas that have high volume sales. Geographically, Nebraska is both very large and very rural. The State does not have a fully developed point-of-sale commercial system onto which we could piggyback EBT services, thus the purchase of extra hardware and the development of networks in rural areas would lessen Nebraska's chances of achieving cost neutrality. We also believe that other benefit programs (ADC, Medicaid, WIC, etc.) would have to be included in EBT for the system to be cost efficient.

A major barrier to EBT implementation in Nebraska is Regulation E. This rule could cripple an EBT system due to the State's financial liability. A recent study conducted by the U.S. Department of Treasury shows that States could pay approximately $828 million annually for food stamps alone if Regulation E is imposed on EBT programs.

Included within Nebraska's Welfare Reform Proposal is a provision to eliminate food stamp coupons either by cashing out the Food Stamp Program, ore replacing coupons with EBT. You may also be interested to know that we are just beginning to visit with the States of Kansas, Iowa, and Missouri to discuss implementations of EBT over the 4-State region.

Please feel free to contact me if you have any questions or if you need further information.

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